GOVERNMENT CONSIDERS NEW WAYS TO COUNT THE POOR

A perpetual debate within the academic community since the start of the War on Poverty has been: What is poverty? How should it be defined? The first in a new series of Institute reports on poverty[1] includes extensive statistical series on three different measures of poverty, and discusses additional possibilities. Other research at the Institute[2] (and elsewhere) also tackles this problem of definition.

A potentially explosive discussion is now taking place within the Congress and the federal executive branch regarding possible changes in the official measure of who shall be counted as poor. The discussion is capsulated in *The Measure of Poverty*—an HEW report submitted in April, 1976, in response to a congressional mandate requiring a

> thorough study of the manner in which the relative measure of poverty for use in the financial assistance program authorized by Title I of the Elementary and Secondary Education Act of 1965 may be more accurately and currently developed.

The Current Official Definition of Poverty

The current official definition of poverty provides a range of income cutoffs, usually expressed as dollars per year. These income cutoffs are adjusted by such factors as family size, age and sex of the household head, whether the household members are children or adults, and whether or not the household lives on a farm. These income cutoffs are an attempt to specify the level of income considered minimally adequate for various types of families in terms of American living standards.

People are officially considered poor if they live in households whose average income for the year is below the income cutoff appropriate for their size and type of family. The income counted in this calculation includes earnings, unearned income from private sources, and government cash transfer income. In-kind benefits (such as Food Stamps and Medicaid), taxes paid, and assets are ignored.

The Implications of Change

The implications of a change in the definition of poverty are numerous and extend into many areas of social policy. Social benefit programs are often designed with the poor especially in mind; many, in fact, exclude anyone who is not counted as poor under the current definition.

The official measure not only identifies financially needy individuals and families. It has recently been extended to designate whole geographical areas as eligible or ineligible for special financial aid. School aid under Title I of the Elementary and Secondary Education Act is but one example of such use. Although Title I educational services can also go to children from nonpoor families, the number of poor children within a school district is a critical element in the formula that decides which schools even receive the funds necessary to provide the services.

> **THE MEASURE OF POVERTY**
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> A Report to Congress as Mandated by the Education Amendments of 1974. U.S. Department of Health, Education, and Welfare.

In addition to these administrative uses of the poverty measure, it also tends to define how much progress we think we have made as a nation in reducing poverty.

The Issues Involved and the Differences They Make

Many definitions and variants of them are discussed in the report. (Statistical estimates of the changes they would bring about are in some cases included in the supplementary Technical Papers rather than the report itself.)

Should in-kind benefits be included in income? How about taxes paid? How about assets? The inclusion of Food Stamp benefits reduces the poverty population somewhere between 5 and 15 percent. Income taxes affect it very little. Payroll taxes increases the poor by half of one percent. The inclusion of estimated rent for those who own their own homes may reduce poverty by as much as 16 percent. The inclusion of all liquid assets may, similarly, reduce it by as much as 18 percent.

For how long should average income be below the poverty cutoff before people are called poor? One year? Five years? Of the poor population in 1972, 31 percent would not have been poor if a five-year income average had been used. BUT: of those who would have been poor under the five-year average, 17 percent would not have been counted as poor in the year 1972.

Should there be different income levels for different demographic groups? Male versus female heads? Rural versus urban residents? Adults versus children? All these differences enter into calculation of the current official definition. The HEW report documents that their omission makes practically no difference to the overall size of the poverty population or to its regional distribution.

How high should the level be? The HEW report devotes a great deal of attention to this question, documenting the difficulties of making defensible estimates of minimum decent living standards (including all the value judgments that must be made), and making no bones about the tenuous food consumption rationale behind the current poverty cutoffs.

Statistical series in the report show the differences in the poverty population that raising or lowering the current level would make. Under the current measure, 11.6

percent of the population was poor in 1974. At three-quarters of the current level, this would drop to 6.9 percent. At one and one-half times the current level, the poor population would practically double, rising to 21.6 percent. And at twice the current level, 33 percent of Americans would be counted as poor.

There are also regional implications. At three-quarters of the current level, the South would have proportionately more of the poor than currently, and the Northeast proportionately fewer. At twice the current level, the South would have many fewer proportionately, and the other three regions (Northeast, North Central, and West) would all have proportionately more.

Should the level be established irrespective of family size? Why should large families be allowed more income for a given status than small ones? The 1974 poverty income cutoffs ranged from $2,487 for a single person, to $5,008 for a four-person family, to $8,165 for a family of seven or more.

The HEW report publishes extensive statistical series showing how different the poor population would be if no allowance were made for the number of people in the family. At their "low" poverty cutoff ($3,200 annual income), the poverty population would be reduced from 11.6 percent of the population to 8.3 percent. At their "high" level ($5,038), the poor would increase to 15.6 percent. An income cutoff that does not vary by family size (whether at the low or the high level) has also, it turns out, major implications for the regional distribution of the poor. The South would have proportionately fewer of the poor than under the current defintion and the other three regions would all have proportionately more.

Should poverty be defined with respect to the living standards of the whole society? If the rich get richer, are not the poor then poorer by comparison? This is certainly a most controversial issue in the debate. On any absolute standard (such as we have today), poverty can in principle be eliminated if incomes at the bottom rise, even if that rise is trivial with respect to the income gains of the rest of the population. A poverty line based, let us say, on the typical (median) income of society will only show progress if the incomes at the low end increase faster than incomes in general.

The HEW report presents detailed statistical series for a poverty income cutoff at 50 percent of the median income. On this measure, the number of people who were poor in 1974 would increase from 11.6 percent to about 18 percent (depending on how the median is calculated). The South would again have proportionately fewer of the poor than currently, and the other three regions would have proportionately more.

Note: poverty over the 1967–1974 period, according to this relative measure, did not decrease at all. Under all the other measures discussed the decrease over the period was significant, if not entirely steady.

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Obviously, these are only highlights from a detailed and important report. *The Measure of Poverty: A Report to Congress as Mandated by the Education Amendments of 1974* can be ordered from:

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Department of Health, Education, and Welfare
200 Independence Avenue, S.W.
Room 443D, South Portal Building
Washington, D.C. 20201

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[1]Robert D. Plotnick and Felicity Skidmore, *Progress Against Poverty: A Review of the 1964–1974 Decade*, Institute for Research on Poverty Policy Series (New York: Academic Press, 1975).
[2]Marilyn L. Moon and Eugene Smolensky, *Augmenting Economic Measures of Well Being*, Institute for Research on Poverty Monograph Series (New York: Academic Press, forthcoming).

FORTHCOMING INSTITUTE WORK ON THE AGED

1. *A Monograph*

Marilyn Moon, *The Measurement of Economic Welfare: Its Application to the Aged Poor* (New York: Academic Press, forthcoming).

This is a timely addition to both the literature on poverty and the general literature on measurement of economic status. Given the large percentage of the aged who live with their children, perhaps Moon's most important and innovative contribution is her adjustment for transfers *within* the family. She also shows that the rankings of different groups of the aged (black, white, working, nonworking) varies according to which definition of economic status is used.

2. *A Conference*

Treatment of Assets and Income from Assets in Income-Conditioned Programs for the Aged. A Spring, 1977 conference on this topic will be jointly sponsored by the Institute for Research on Poverty and the Federal Council on Aging. From this conference will come a volume of commissioned papers on this important issue, and a policy statement and recommendations by the Council.