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Measuring poverty

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A great deal has been written about the measurement of poverty in the United States over the past several decades. As that literature demonstrates, poverty is ultimately a normative concept, not a statistical one. Although this article focuses on a set of statistical issues in the measurement of poverty, in the final analysis setting a poverty level requires a judgment about social norms. While analysis of statistical data can be very helpful in providing some basis for judgment, such a judgment cannot be made on statistical grounds alone. As Adam Smith put it more than two hundred years ago, poverty is a lack of those necessities that "the custom of the country renders it indecent for creditable people, even of the lowest order, to be without." Such necessities cannot be identified in some neutral, scientifically correct way—they do indeed depend on the "custom of the country," and some notion of what that custom requires must enter into their selection.

The United States has a set of official poverty thresholds, established more than twenty-five years ago. Although these standards may have represented a reasonable social minimum in 1963, normative standards change over time, and norms such as the poverty line must therefore be reassessed periodically. It is appropriate to start this reassessment by discussing our concept of poverty and considering why we might want to measure poverty in the first place.

What is poverty and why should we care?

Probably the most basic questions we can ask about poverty are what is it and why should we care about it? There are of course many different possible answers to these questions, as past debates over poverty and antipoverty policies have amply illustrated. Some writers have defined poverty to include any type of major deprivation, whether material—lack of specific goods and services—or more intangible—lack of access to good jobs, lack of appropriate role models, and so forth. And membership in the "underclass," which at least overlaps with the population in poverty, is often defined on the basis of behavioral factors like teen pregnancy or low attachment to the labor force, rather than on the basis of material deprivation alone.

Writers on poverty measurement for program and policy purposes, however, most often focus on measures of material well-being rather than on behavioral factors or more intangible forms of deprivation affecting the poor. Measures of access to goods and services—typically based on the income needed to support a minimal level of consumption—are used by such writers to measure material well-being. It is not that other types of deprivation are seen as unimportant; it is simply that the first goal of antipoverty programs is typically to provide minimally adequate levels of material well-being, and a measure with a material focus is needed to gauge the need for and success of such programs.

Even economists who are interested in these measurement issues sometimes treat poverty as if it were merely a special subset of the problem of inequality, however. In fact, the literature on the measurement of inequality is both much broader and more comprehensive than that on poverty measurement, and some writers seem to feel that good measures of inequality may preclude the need for a separate, specific measure of poverty. After all, if there were no inequality, presumably there would be no poverty either. For many such writers, any consideration of poverty or of antipoverty policies automatically translates into a consideration of the distribution of income and wealth.

From the point of view of the policymaker, however, a concern about poverty does not necessarily imply any interest at all in broader issues of distribution. Many policymakers start instead with the idea that intuitively formed the basis for the War on Poverty of the 1960s: that there is some minimum decent standard of living, and a just society must ensure that all its members have access to at least this level of economic well-being.

Typically, policymakers who express concerns about poverty either are thinking of some basic notion of "decency" of this type and/or are worried about the impacts of very low levels of consumption on the future needs, abilities, and behavior of those who are poor. Either type of concern lends itself most readily to a poverty measure that is defined in terms of some specific level of consumption that is considered to represent a necessary minimum—a "minimum decent standard of living."

Although the concept of a minimum standard can be made operational in a number of different ways, all of the poverty standards that might do so have two important features in common. First, they focus on economic well-being, not behavior, beliefs, or general levels of satisfaction or happiness. This is not to imply that these other things are unimportant—it's just that few policymakers consider them directly relevant to the policy goal of providing a decent standard of living, which is typically thought of in material terms. For the purpose of assessing programs that are explicitly designed to improve economic circumstances, a poverty measure that focuses on economic resources rather than on these other factors will be most useful. And second, of course, such a poverty standard must focus on those members of society whose command over goods and services is most limited. It is this feature that distinguishes a poverty measure from broader measures of inequality.

How should we measure poverty?

These features narrow the field of possible poverty measures a little, but there are still many measures that could be constructed that would meet both of these criteria—including the official U.S. poverty measure. Although this measure is somewhat flawed, it is inevitable that any alternative proposal will be compared to it. It is therefore helpful to outline its major features before turning to any discussion of alternatives.

The official U.S. poverty standard grew out of a series of studies undertaken by Mollie Orshansky for the Social Security Administration in the mid-1960s.[1] Orshansky faced the same problem that statistical agencies today face in developing poverty measures—statisticians are typically very uncomfortable with the idea of making normative judgments about how much people "need." Orshansky addressed this problem by starting with a set of minimally adequate food budgets for families of various sizes and types that had been calculated by the Department of Agriculture and that therefore had some claim to "scientific" accuracy.

To obtain a poverty line, she simply multiplied these minimum food budgets by a factor of three, on the assumption that food typically represented about one-third of total family expenditures. This one-third estimate, in turn, came from a 1955 food consumption survey, and was probably already outdated in 1963 when Orshansky first used it—consumption data from 1960–61 indicate that food consumption was closer to one-fourth of the typical budget by then. Nevertheless, according to Orshansky's scale, any family whose income was less than three times the cost of the minimum food budgets of the Department of Agriculture was classified as poor.

In 1969 a slightly modified version of the Orshansky scale was mandated by the Bureau of the Budget as the standard poverty measure to be used by the government statistical establishment as a whole. Since 1969 the Orshansky poverty scale has been subject to considerable criticism, but, with relatively minor changes, it still forms the basis for our official poverty measures. The original Orshansky measure has been updated for changes in prices since the 1960s, but no adjustment has been made to take account of any other changes in needs or consumption patterns that have occurred over this time.

This official poverty measure thus consists of a set of dollar amounts—called thresholds—that vary by family size. If a family of a given size has an income below the threshold for its size, the family is considered poor. Families with incomes over the threshold are counted among the nonpoor. Income, for the purpose of measuring poverty, consists of money income before taxes. It does not include noncash forms of income such as food stamps and Medicaid. Table 1 shows these official poverty thresholds for families of different sizes.

These poverty thresholds provide a fairly crude measure—families with incomes only a few dollars apart aren't really that different, though one will be classified as poor while the other is nonpoor—but this measure serves to give some indication of major changes in the size of the poverty problem. The raw poverty count, or the percentage of the population in poverty, is often supplemented by other measures, such as the "poverty gap," which measures the aggregate amount by which families with below-poverty incomes fall below the line.

Table 1

Weighted Average Poverty Thresholds in 1988

Size of Family Unit	Threshold (Dollars per Year)
One person (unrelated individual)	$6,024
15–64 years	6,155
65 years and over	5,674
Two persons	7,704
Householder 15–64 years	7,958
Householder 65 years and over	7,158
Three persons	9,435
Four persons	12,092
Five persons	14,306
Six persons	16,149
Seven persons	18,248
Eight persons	20,279
Nine persons or more	24,133

Source: U.S. Bureau of the Census, Current Population Reports, Series P-60, no. 166, *Money Income and Poverty Status in the United States: 1988*, p. 88.

Note: The official income and poverty estimates are based solely on money income before taxes and do not include the value of noncash benefits such as food stamps, Medicare, Medicaid, public housing, and employer-provided fringe benefits.

In my view, the thresholds that make up our official poverty measure are now quite outdated as indicators of real family needs, however. To understand why, it is helpful to think about why poverty thresholds must be adjusted at all.

Adjusting poverty measures for change over time

The most obvious reason for adjusting thresholds over time is because prices change. An amount of money that was adequate for a family in 1967 would have bought far less ten years later. Even if one thinks of poverty as resources below some "absolute" level of consumption that is not expected to change in real terms over time, it is still necessary to adjust for these price changes—in other words, to make the real purchasing power of the standard the same over time. As mentioned earlier, this is the one adjustment made annually to the thresholds.

Prices, however, are not the only things that change over time. People's incomes and family structures also change, and so do the goods and services that are available for consumption. Since 1955, for example, when the consumption data underlying our official thresholds were collected, major changes in consumption patterns have occurred.

Some goods commonly consumed today did not even exist in 1955, and others were relatively rare—for example, according to consumer expenditure data the average family did not have a telephone. Most families with children could count on the services of a full-time homemaker in 1955, and many fewer children lived with only one parent, so few families faced child care expenses. And the relative price of housing, in particular, is very different today from its price in 1955; in 1955, the average U.S. family spent about one-third of its income on housing, and today it spends about 42 percent. This change especially affects the poor, who spend a much larger share of their budgets on housing than do typical families. All of these changes, and others like them, contribute to changes in minimum family needs over time.

Thus, the most obvious problem in adjusting an absolute standard only for price changes is that over the very long run the goods available to be consumed will change almost beyond recognition—and these changes in turn will affect our perception of needs. A century ago, for example, few households had indoor plumbing or electricity. A set of minimum consumption needs established in 1890 and indexed for changing prices alone would today exclude such goods, therefore, even though they are now considered basic needs.

Further, as long as there is some continued real growth in the economy as a whole, incomes will generally rise relative to prices (although during recessions price gains may temporarily exceed wage increases). As a result, if poverty thresholds are adjusted only for prices, they will fall farther and farther behind average standards of living.

Relative versus absolute measures of poverty

Relative measures of poverty, typically based on some fixed relationship to aggregate or average income, are often advocated by economists to correct this problem. Such measures do capture at least those changes in minimum acceptable living standards caused by rising real incomes. Under this approach, as incomes rise in general, poverty thresholds are adjusted upward by a similar percentage. The most commonly proposed relative poverty measure is a threshold set at some specific percentage of the median income—most often, 50 percent.

Historically, the earliest thresholds calculated by Orshansky, which were for 1959, had a four-person standard that was equivalent to about 49 percent of the median income for that year. Because growth in incomes substantially outstripped growth in prices between 1959 and 1967, however, by 1967 the four-person standard had already declined to about 43 percent of the median income for families as a whole. By 1988 this standard had declined further, to about 37 percent of median family income. Table 2 shows poverty thresholds for a three-person family in 1988 under a variety of different poverty measures—the relative standard is in column 2.

Table 2

Poverty Thresholds for a Family of Three in 1988 under Alternative Poverty Measures

Family of Three	Official Measure	Relative Measure at 50% of Median[a]	Measure Based on Housing Consumption[b]	Measure Based on Updated Food Multiplier[c]
Threshold in dollars	$9,435	$12,737	$14,530	$15,850
Ratio of measure to official measure	1.0	1.35	1.54	1.68

Source: U.S. Bureau of the Census, Current Population Reports, P–60, no. 166, *Money Income and Poverty Status in the United States: 1988*; and Patricia Ruggles, *Drawing the Line* (Washington, D.C.: Urban Institute Press, 1990).

[a]Poverty threshold for four-person families set at 50 percent of the median income, and all other thresholds adjusted accordingly, using equivalence scales implicit in official thresholds.

[b]Based on Fair Market Rents and Housing Affordability Guidelines used in the Section 8 Subsidized Housing Program. See Ruggles, *Drawing the Line*, for details on the method of calculation.

[c]Calculated using the same general methods as the original Orshansky standard, but with a multiplier updated to reflect the changing share of food in family budgets. See Ruggles, *Drawing the Line*, for general discussion and details on the method of calculation (in Appendix A).

Opponents of the relative income or consumption approach to poverty measurement argue that it presents too much of a "moving target" for policy assessment, and that it is in some sense not fair to judge our antipoverty efforts against such a standard. Indeed, this type of standard will rise most rapidly in periods of rapid economic growth, when most people, including most of the poor, are likely to be experiencing a growth in their real incomes and consumption opportunities. Even though low-income families may consider themselves better off under such circumstances, they would not be judged less poor under a relative poverty measure unless their income or consumption levels actually rose more than did the median level for society as a whole.

To put it another way, poverty cannot decline under a relative poverty measure without some change in the shape of the income distribution as a whole. It is much more difficult to design (let alone enact) policies to carry out such a major redistribution than it is to design programs to improve the consumption opportunities of the poor.

One problem with the use of relative income as the basis for indexing thresholds over time, therefore, is that relative measures may be more closely tied to changes in income distributions or inequality than to changes in minimum needs. If the major policy purpose of a poverty line is to set a standard of "minimum adequacy" to be used in program and policy assessment, a standard that, for example, falls in real terms during recessions is less than ideal, since presumably the real needs of the poor do not fall similarly. More broadly, a measure based on relative income, while involving fewer apparently arbitrary judgments of needs than an absolute standard, is correspondingly less closely linked to the basic concept of minimum adequacy.

A poverty standard that is not increased as real incomes and consumption levels rise, however, runs the risk of becoming increasingly unrealistic over time. Clearly, over time "the custom of the country" changes, and our definition of necessities must change with it.

If our definition of minimum adequacy does not keep up with social norms for consumption, those whose incomes and consumption levels fall under the poverty line are increasingly likely to be out of the economic mainstream in other ways as well. For example, in the last decade alone the proportion of adult, nonelderly household heads in poverty who work full time has fallen from about 43 percent to under 36 percent. As real wages rise and the poverty line remains fixed in real terms, it is increasingly unlikely that someone who works a significant number of hours will remain poor, at least under the official definition. As a result, the poverty population comes to exclude most low-wage workers.

On the one hand, many such workers (and others among the near poor, such as retirees) may still experience real economic hardships, in the sense of being unable to afford those goods that the custom of the country deems necessary. And on the other hand, those who are still poor under the absolute scale even as it declines in relative terms are in some sense a much more "hard core" poverty population than were those who were judged poor under this scale when it was first established in the mid-1960s. Because the line is so much farther from the norm for our society, people who fall under it are more likely to be those with particularly severe problems, or perhaps even multiple problems—the disabled, young single mothers, those with very little education and/or very low job skills. It is indeed a challenge to design programs that will help those with such major problems to become more self-sufficient.

Further, if the measurement-related aspects of this shift are not well understood, some analysts may misinterpret the evidence of increases in these problems among the poverty population. They may erroneously assume that our existing antipoverty programs are backfiring and actually creating a more severely handicapped poverty population over time. Or one less likely to want to work!

Alternative measures of poverty

If price-indexing an absolute standard isn't satisfactory because it doesn't reflect real changes in minimum needs, and indexing by relative income changes isn't satisfactory because income fluctuates too much and also isn't directly related to minimum needs, what *should* we do?

If minimum adequacy is indeed our major concern, a more direct approach is to re-estimate the market basket of "minimum needs" at regular intervals—such as every decade. This is essentially the approach now used by Statistics Canada, for example.[2] The specific updating methodology used in Canada is somewhat mechanistic, however. An alternative approach, which I would advocate for the United States, would be to update our set of absolute poverty thresholds for changes in needs and consumption standards over time by calling upon some set of "experts" to set normative standards of consumption for a market basket of specific goods, and then to revise those standards for changes in consumption at some set interval such as a decade.

Many commentators have argued that expert opinion as to family needs is in reality just as arbitrary and just as subjective as any other opinion—there is no scientific way to determine just how much of what goods any particular type of family really needs. In some abstract sense, this is true. In a broader sense, however, the same constraints that operated when Orshansky set her original thresholds would presumably continue to operate when thresholds were revised—estimates that were extremely far from a social consensus as to real family needs would meet with substantial criticism and would be unlikely to be adopted.

Family budgets that detailed projected spending on a variety of different goods would be particularly likely to be criticized by advocacy groups interested in specific goods if estimates for those goods were truly unrealistic. Criticism from housing advocates, for example, resulted in substantial revisions in proposed changes to housing subsidies in the early 1980s. To facilitate this process, however, certain safeguards would be appropriate—proposed revisions by expenditure category might be published in advance, for example, with provision for public comment, and analyses of actual spending patterns at various income levels might also be required for purposes of comparison.

A subsistence standard cannot simply be based on the actual consumption patterns of the poor, since presumably those consumption patterns have already been constrained by a lack of resources and may therefore be inadequate in important respects. A normative market basket should not exactly mirror the consumption of middle-income families either, however, since such families may spend more on "luxuries" than would be consistent with minimum adequacy. Presumably, most categories of consumption should fall somewhere between these two sets of consumption standards, and proposed standards that fail to do so deserve to be suspect.

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In other words, even though there is no one "right" bundle of consumption needs for the poor that all experts would agree on, we do know enough to eliminate a very large number of clearly wrong answers. In this sense, an expert-determined market basket need not be seen as essentially arbitrary, even if we concede that an exact determination of needs is not really possible. While experts who work for the government are likely to be under some political pressure to come up with poverty lines that are as low as possible, any consumption-based standard is still likely to exceed a standard that has been adjusted only for price changes over a very long period of time.

Setting normative consumption standards for a wide range of basic goods is indeed a job for experts and was clearly beyond the scope of my study.[3] As a substitute, however, I have considered two much more limited consumption-based measures: one that, like Orshansky's original thresholds, is tied to food consumption, and one that is based on housing needs. These two standards both indicate that a consumption-based approach would be likely to result in substantially higher thresholds than those found under the official measure. Thresholds for a three-person family under these two measures for 1988 are shown in columns 3 and 4 of Table 2.

Like Orshansky, I balked at the idea of making up my own consumption norms and instead chose some that were already in use, at least in some form. The "housing consumption" standard is based on data on "fair" rents and standards for housing as a share of total budgetary needs established under the Section 8 Subsidized Housing Program, the basic rental subsidy program for low-income families in the United States.[4] Details on the derivation of this standard are given in my study, but basically the norms are derived from program guidelines, which, unlike our poverty thresholds, recognize that housing prices in the United States have risen substantially as a share of budgets over the past fifteen years. Unfortunately, the program—and the rental housing cost data it uses—has only been in existence since 1975, so fully comparable estimates for the earlier years cannot be computed. Rough estimates based on other housing data, however, imply that poverty thresholds would have been in the neighborhood of the Orshansky standard in 1963, although, as Table 2 shows, by 1988 they would have been about 1.54 times the official standard.

The other consumption-based standard shown in Table 2, the updated food multiplier standard, is computed using an even simpler methodology. In this case, Orshansky's original approach of multiplying a basic food-need standard by the inverse of the share of food in the average family budget has been duplicated exactly, but with updated data on budget shares. Average families in the United States today spend about one-sixth of their budgets on food. As a result, today's multiplier would be about six rather than the estimate of about three that Orshansky used. Again, the updated multiplier approach produces thresholds well above the official ones—in 1988, for example, they would have been 1.68 times the official level.

It is worth reiterating that both the housing consumption and updated food multiplier thresholds are only rough proxies for a standard based on a more complete market basket of necessary goods. Further, it is possible that a set of thresholds based on a broader survey of minimum consumption needs would not have risen as much relative to the official thresholds as did the two alternatives considered here. On the other hand, the housing standard may actually understate needs, since housing costs make up a very large share of the budgets of most poor families, and the use of the relatively conservative estimates of the Department of Housing and Urban Development (HUD) of the appropriate budget share for housing may understate the impacts of housing cost increases on the needs of poor families.

In summary, a detailed examination of changes in the costs of a complete market basket of necessary goods would be the preferred approach to constructing a good estimate of changes in the needs of the poor since the mid-1960s. In the absence of such a study, however, the housing consumption standard developed here, which has been designed to be relatively conservative in its estimates of changes in needs, should provide a reasonable, if perhaps slightly low, estimate of the current minimum consumption needs of poor families.

Before turning to an examination of the impacts of alternative poverty measures on our perceptions of poverty, one further issue should be mentioned. All of the poverty measures discussed so far, including the official measure, consist of two parts: a measure of family needs, such as a set of poverty thresholds, and a measure of family resources—for example, family income. The official poverty measure uses pretax cash family incomes as the basic resource measure that is compared to the thresholds to determine whether or not a given family is poor. While this resource measure is far from ideal, the major focus of this article is on the measurement of needs rather than resources, and so for the sake of consistency pretax cash incomes have also been used as the resource measure here.

How much difference does using this rather limited resource measure make in examining either the incidence of poverty or changes in poverty rates over time? Ideally, one should be using a resource measure that does a better job of actually measuring the family's spendable resources. For example, taxes should be subtracted from resources, because families can't actually use the money they pay in taxes to purchase the goods and services included in the need standard. On the other hand, noncash benefits such as food stamps should be included in income, because these benefits do increase access to minimally necessary consumption. In practice, excluding taxes and including food stamps would have very little impact on either income or measured poverty rates in total, although this improved measure would change the specific families that appear to be poor.

Noncash benefits such as medical care are more controversial—while access to medical care is a necessity, counting the value of that medical care as if it were income can be misleading. Because medical care prices are so high, some families who are eligible for Medicare or Medicaid theoretically receive resources above the poverty line in medical benefits alone! In other words, even with no cash income at all, these families would not be counted as poor, even though they could not pay rent or buy food to eat. Clearly, a poverty standard that will not cover the costs of medical care does not reflect total needs, and treating medical care as if it were cash exaggerates the resources available to such families to meet other needs. For this reason, I would advocate excluding medical benefits, which are not fungible, from the basic income measure, and instead having a second need standard for health care. Under this system, families might be judged poor on the basis of their "cash-like" incomes, or they might be medically needy (or both or neither), but medical benefits would not be counted against nonmedical needs.

Trends in poverty over time: What progress have we made?

So far I have focused on ways to measure poverty, and have argued that our official poverty measure seriously understates the extent of the problem. How important is this understatement? Does it really change our perception of the size of the poverty problem or of the progress that we've made in combating poverty since the 1960s?

As Table 3 shows, the answer to these questions is yes—the poverty definition used can have very big impacts on our perception of poverty. Even under the official measure, poverty rates are very high today relative to the past; today's poverty rate is still above the level seen at any point during the 1970s, for example. But under the alternative poverty thresholds, poverty rates are not only much higher in every year, but the trend is also less favorable in the recent period.

In general, the higher the threshold, the greater the number of people who will be counted as poor. Because income is not evenly distributed, however, a given percentage increase in the poverty threshold does not necessarily translate into a proportional increase in poverty rates. In fact, because so many families have incomes in the neighborhood of the poverty line, changes in poverty thresholds almost always have a more-than-proportional effect on measured poverty rates.

For example, using a relative threshold set at 50 percent of the median implies an overall poverty rate of almost 20 percent, compared with the official poverty rate of 13 percent. Also, because median income has risen since the 1982–83 recession, the trend since 1982 looks worse under the relative measure than under the official estimates (see Table 3, column 2).

Table 3

Poverty Rates for Selected Years under the Official Measure and Three Alternatives

Year	Official Measure	Relative Measure at 50% of Median[a]	Measure Based on Housing Consumption[b]	Measure Based on Updated Food Multiplier[c]
1972	11.9%	17.9%	NA	17.3%
1977	11.6	17.4	20.7	18.0
1982	15.0	18.9	25.1	25.5
1987	13.5	19.7	23.4	25.9
1988	13.0	19.5	23.0	25.8

Source: Calculated from the Current Population Survey for years shown. Data for 1972–1987 from Patricia Ruggles, *Drawing the Line* (Washington, D.C.: Urban Institute Press, 1990), Table 3.4, p. 55. Data for 1988 from "Falling Behind: The Growing Income Gap in America," Joint Economic Committee, U.S. Congress, Washington, D.C., December 1990.

[a]Poverty threshold for four-person families set at 50 percent of the median income, and all other thresholds adjusted accordingly, using equivalence scales implicit in official thresholds.

[b]Based on Fair Market Rents and Housing Affordability Guidelines used in the Section 8 Subsidized Housing Program. See Ruggles, *Drawing the Line*, for details on the method of calculation.

[c]Calculated using the same general methods as the original Orshansky standard, but with a multiplier updated to reflect the changing share of food in family budgets. See Ruggles, *Drawing the Line*, for general discussion and details on the method of calculation (in Appendix A).

The two consumption-based estimates of the poverty rate are even higher; they imply that 23 to 26 percent of the population are poor. These measures also imply a worse trend than does the official measure. At best, they indicate that there has been little improvement in the proportion of the population in poverty since the recession of 1982–83.

These results are pretty shocking. Poverty rates of this magnitude imply that serious need is a much more widespread phenomenon than we are used to thinking, and they also imply that we have actually lost a substantial amount of ground against poverty since the early 1970s. It is tempting to think that poverty rates this high could only result from unrealistically high thresholds. The evidence is otherwise, however. The official poverty cutoff for a typical three-person family in 1989 would still be only $9885—or only about $824 per month. Under the Department of Agriculture's Thrifty Food Plan, which is an index representing a short-term, subsistence level of spending on food, such a family could expect to spend $260 per month on food alone. That leaves less than $565 for everything else—rent, medical expenses, child care, transportation, clothing, etc. This is not too realistic; rent alone would consume most of that remainder. The national average fair market rent, as calculated by HUD, would be almost $500 per month for a two-bedroom apartment—and rents are of course even higher in the large cities where many of the poor live.

Given these costs for food and housing alone, a higher poverty threshold seems warranted. Even the housing consumption standard calculated above, for example, would only imply an income of about $1270 per month (1.54 x 824), or about $15,225 per year, for such a family to be considered out of poverty. Such a family would still need to spend about 60 percent of its income to meet its most basic food and housing needs, but some income would remain for things like Social Security taxes, child care costs, transportation, clothing, and other work expenses.

In summary, alternative poverty measures can change our view of the long-term trend in poverty as well as of the absolute number of people who are currently poor. We are all familiar with the story told by the official statistics, that poverty rates have fallen significantly since the mid-1960s, although even under official estimates poverty rates rose sharply during the 1980s, and even before the current recession we had not seen a return to the levels of the 1970s.

But the story appears even worse if we look at alternative measures of poverty as well. Using either an adjustment for rising incomes or for changes in consumption patterns, we find that today's overall poverty levels are comparable to those seen when war was declared on poverty in the mid-1960s.

Who are the poor today?

What kinds of people are included in today's poverty population? Who are these millions of people who are seen to be poor under these various definitions?

Just as striking as the differences in total poverty rates under alternative thresholds are the impacts of these alternatives on the composition of the poverty population, shown for 1988 in Table 4. Because the distribution of income varies across population groups, relative poverty rates will also vary depending on the level of the poverty threshold. This can be seen most clearly by comparing the poverty rates for the elderly to those for all persons under the various thresholds.

Under the official price-indexed thresholds, the poverty rate for the elderly is below that for all persons—12 percent for the elderly compared to about 13 percent for all persons. Under the relative-income-adjusted threshold, however, the rate for the elderly actually exceeds that for the population as a whole—22.9 percent for the elderly, compared to 19.5 percent for the population as a whole.

As poverty thresholds rise, the proportion of the elderly shown as poor rises even more relative to the proportion for the population as a whole. Under the updated food multiplier approach, for example, about 32 percent of the elderly would be counted as poor, compared to about 26 percent of the population as a whole.

This shift in relative poverty rates has important implications for public policy. One of the great antipoverty success stories of the past two decades has been the decline in poverty rates for the elderly population. Almost 30 percent of the elderly were poor in 1967 under the official thresholds, but by 1988 only 12 percent were. In contrast, the official 1988 poverty rate for the population as a whole is much closer to the 1967 level: 13 percent in the later year, compared to 14.2 percent in the earlier one. The official

Table 4

Poverty Rates for Selected Population Groups under the Official Measure and Three Alternatives, 1988

Poverty Rates for Various Groups	Official Measure[a]	Relative Measure at 50% of Median[b]	Measure Based on Housing Consumption[c]	Measure Based on Updated Food Multiplier[d]
All persons	13.1%	19.5%	23.0%	25.8%
Persons under 18	19.7	26.6	31.3	34.6
Persons aged 65 and over	12.0	22.9	28.6	32.4
Persons in female-headed families	32.8	43.7	48.2	51.3
Whites	10.1	15.9	19.3	22.1
Nonwhites	31.4	40.6	46.1	49.4

Source: Calculated from the March unrevised 1989 Current Population Survey, which provides data on family incomes in calendar year 1988. Taken from "Falling Behind: The Growing Income Gap in America," Joint Economic Committee, U.S. Congress, Washington, D.C., December 1990. Methods used to derive figures are discussed in Patricia Ruggles, *Drawing the Line* (Washington, D.C.: Urban Institute Press, 1990), Chap. 3 and Appendix A, and comparable figures for 1987 are given in Table 3.5, p. 57.

[a]Based on unrevised data. The Census Bureau has just released figures for 1988 which show the official poverty rate for all persons at 13.0 percent, but detailed data tapes containing these revised data are not yet available.

[b]Poverty threshold for four-person families set at 50 percent of the median income, and all other thresholds adjusted accordingly, using equivalence scales implicit in official thresholds.

[c]Based on Fair Market Rents and Housing Affordability Guidelines used in the Section 8 Subsidized Housing Program. See Ruggles, *Drawing the Line*, for details on the method of calculation.

[d]Calculated using the same general methods as the original Orshansky standard, but with a multiplier updated to reflect the changing share of food in family budgets. See Ruggles, *Drawing the Line*, for general discussion and details on the method of calculation (in Appendix A).

poverty rate for the elderly fell below that for the general population for the first time in 1982 and has remained below the overall poverty rate since then. Some analysts have argued that as the relative position of the elderly has improved—even as federal budget constraints have become tighter—a smaller proportion of our resources should be directed into programs serving the elderly. The data shown in Table 4 make it clear, however, that the degree of improvement in the relative status of the elderly is quite sensitive to the specific set of thresholds used.

Although changes in the relative poverty status of the elderly under alternative thresholds are the most dramatic examples of the impacts of the level of the threshold on the composition of the poverty population, the relative poverty status of other population subgroups can also be affected. Poverty rates for children, for those in female-headed families, and for nonwhites, for example, are always well above those for the population as a whole, but the gap does narrow slightly (at least in percentage terms) as thresholds rise.

In general, as poverty thresholds rise, the population seen as poor comes to resemble more closely a cross-section of the population as a whole—although obviously, under any of these definitions, children, those in female-headed families, and nonwhites are still far more likely to be poor than is an average white adult. Conversely, as discussed earlier, a threshold that is fixed in absolute terms, and which thus tends to fall relative to median income, will come to identify a narrower subset of the population as poor over time. This will occur even if there is no change in the overall distribution of income across demographic subgroups within the population as a whole.

Of course, being identified as "poor" or "not poor" does not make the individuals involved any better (or worse) off, but such a shift may have some political consequences. As the characteristics of the poverty population diverge farther from those of the "typical" family, the poor are likely to become more isolated politically and to be seen as an underclass whose problems are principally caused by their own aberrant behavior. This perception may in turn undermine support for programs designed to combat poverty.

Conclusion

The specific poverty measures that we use have played an important role in shaping our perceptions both of the extent of real economic need and of the characteristics of those who are most deserving of our help. Ultimately, different measures may well lead to different priorities in setting antipoverty policies. Probably the single most important aspect of a poverty measure, in terms of its impact on public policy, is the proportion of the population that it suggests to have inadequate levels of consumption. For that reason, this discussion has focused on setting poverty thresholds, and the implications of those thresholds in defining the poverty population.

Relative poverty measures appeal to many economists because they depend only on a fixed relationship to median income, and so one can set thresholds while avoiding the awkward and obviously value-laden process of defining need, except in some very global sense.

Ultimately, however, the relative measure is not a practical way to set poverty standards for the purpose of policy analysis. The basic flaw in this approach is that the concept of poverty that most people normally use does in fact imply some fairly specific value judgments—and these judgments are not consistent with the view that only people's relative levels of consumption, rather than their actual consumption, matter in assessing poverty. Not all needs or desires are generally considered equal in judging whether or not someone should be counted as poor. The need to eat regularly and to have someplace warm and dry to sleep is widely recognized; the need to own a particular brand of sneakers or jeans, while deeply felt by many teenagers, is rarely considered of equal importance by policymakers.

More generally, social and political concerns about poverty arise from many different causes, but almost all of them have to do either with basic notions of fairness and justice or with concerns about the impacts of very low levels of consumption on future needs, abilities, and behavior. In either case, these concerns are likely to be much stronger with regard to some types of consumption than others, and it is appropriate, in a policy context, to weight those types of consumption more heavily in determining need.■

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[1]See Orshansky, "Counting the Poor: Another Look at the Poverty Profile," *Social Security Bulletin*, January 1965, pp. 3–26.

[2]See M. C. Wolfson, and J. M. Evans, "Statistics Canada's Low Income Cut-Offs: Methodological Concerns and Possibilities," Statistics Canada Discussion Paper, Ottawa, 1989, for a detailed description of the methodology used to compute the Canadian low-income cutoffs.

[3]Ruggles, *Drawing the Line: Alternative Poverty Measures and Their Implications for Public Policy* (Washington, D.C.: Urban Institute Press, 1990).

[4]See Ruggles, *Drawing the Line*, Appendix A, for details, both on fair market rents and their use in housing subsidy programs and on the calculation of the specific standard discussed here.