

# MEASURING POVERTY IN AMERICA

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HEARING  
BEFORE THE  
SUBCOMMITTEE ON  
INCOME SECURITY AND FAMILY SUPPORT  
OF THE  
COMMITTEE ON WAYS AND MEANS  
U.S. HOUSE OF REPRESENTATIVES  
ONE HUNDRED TENTH CONGRESS

FIRST SESSION

AUGUST 1, 2007

**Serial No. 110-56**

Printed for the use of the Committee on Ways and Means



U.S. GOVERNMENT PRINTING OFFICE

43-757

WASHINGTON : 2008

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## **MEASURING POVERTY IN AMERICA**

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**WEDNESDAY, AUGUST 1, 2007**

U.S. HOUSE OF REPRESENTATIVES,  
COMMITTEE ON WAYS AND MEANS,  
SUBCOMMITTEE ON INCOME SECURITY AND FAMILY SUPPORT,  
*Washington, DC.*

The Subcommittee met, pursuant to notice, at 10:00 a.m., in room B-318, Rayburn House Office Building, Hon. Jim McDermott (Chairman of the Subcommittee), presiding.

[The advisory announcing the hearing follows:]

# ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

## SUBCOMMITTEE ON INCOME SECURITY AND FAMILY SUPPORT

FOR IMMEDIATE RELEASE  
July 25, 2007  
ISFS-11

CONTACT: (202) 225-1025

### McDermott Announces Hearing on Measuring Poverty in America

Congressman Jim McDermott (D-WA), Chairman of the Subcommittee on Income Security and Family Support of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on the definitions and standards used to measure the number of Americans living in poverty. **The hearing will take place on Wednesday, August 1, 2007, at 10:00 a.m. in B-318, Rayburn House Office Building.**

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Subcommittee and for inclusion in the record of the hearing.

#### **BACKGROUND:**

On August 28th, the Census Bureau will release statistics on the depth and breadth of poverty in 2006. In 2005, nearly 37 million Americans were officially poor—an increase of 5.4 million since 2000. In 2005, the poverty threshold for a family of four with two children was \$20,444.

The official poverty rate is a critical indicator of how widely shared prosperity is in the economy, a key benchmark for targeting resources towards the most disadvantaged, and a useful measure of the impact of programs and policies on vulnerable populations.

However, there is a broad consensus that the poverty measurement has become less accurate in highlighting economic hardship than when it was created more than 40 years ago. For example, the poverty thresholds were created in relation to consumption when the average family of three or more persons spent about one-third of its after-tax income on food. Today, food demands only one-seventh of that family's budget, while the share of income devoted to other expenses, such as housing and health care, has grown. Furthermore, the Federal poverty threshold for a family of four represented about 50 percent of median income when first devised, while it now represents only about 30 percent of median income. Finally, the current poverty measurement fails to count certain benefits, including the Earned Income Tax Credit and food stamps, as well as certain work-related expenses, including child care and transportation.

There have been numerous suggestions for revising the poverty measure, including recommendations published in 1995 by a National Academy of Sciences Panel on Poverty and Family Assistance. The panel recommended both changes in how family resources are calculated and corresponding adjustments to the poverty threshold. A number of options were provided, nearly all of which would have increased the number of Americans considered poor.

In announcing the hearing, Chairman McDermott stated: ***"We need a poverty measurement for 2007, not 1963. Unfortunately, our poverty measure has not kept pace with societal changes over the past half century. Improvements are needed so we can fully understand how many Americans are denied access to a reasonable standard of living, and so we can target resources to those most in need."***

**FOCUS OF THE HEARING:**

The hearing will consider the current poverty measure, its limitations, and possible alternatives.

**DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:**

**Please Note:** Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, <http://waysandmeans.house.gov>, select "110th Congress" from the menu entitled, "Hearing Archives" (<http://waysandmeans.house.gov/Hearings.asp?congress=18>). Select the hearing for which you would like to submit, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the on-line instructions, completing all informational forms and clicking "submit" on the final page, an email will be sent to the address which you supply confirming your interest in providing a submission for the record. You **MUST REPLY** to the email and **ATTACH** your submission as a Word or WordPerfect document, in compliance with the formatting requirements listed below, by close of business **August 15, 2007**. Finally, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225-1721.

**FORMATTING REQUIREMENTS:**

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be provided in Word or WordPerfect format and **MUST NOT** exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. All submissions must include a list of all clients, persons, and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone and fax numbers of each witness.

Note: All Committee advisories and news releases are available on the World Wide Web at <http://waysandmeans.house.gov>.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-1721 or 202-226-3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

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Chairman MCDERMOTT. Welcome to the Committee. Last night I went home at 3:30 in the morning from the Rules Committee having been talking about SCHIP, and as I got out of my car, I noticed that the guy next door to me is selling his house. So, at that hour, you might as well go ahead and find out how much he's selling it for. I live around the Marine Corps barracks down in Southeast, and one of those row houses is now selling for \$745,000. I said to myself, I guess this is a timely hearing, because when you talk about poverty that was once based on the food basket, housing is

now such a question that it really brings it to my mind. It's part of the reason why I scheduled this hearing.

At the end of this month the Census Bureau will release statistics on the number of Americans living in poverty last year, and I know everyone in the room is hoping that we'll finally see a decline in poverty, especially after the record in recent years.

Since 2000, the number of poor has climbed by 5.4 million. That's an average of almost 3,000 Americans every single day for 5 years. But even as we wait to see the new Census poverty figures, we know that will tell really only part of the story about the depth and the breadth of poverty in the United States. There's a broad recognition that our poverty measure has failed to keep pace with changing patterns of consumption, employment, standards of living and government assistance over the last 40 years.

Our current poverty definition was developed in 1963, so I think it's reasonable to think about an update. That's before the Beatles' first trip to the United States before the establishment of Medicare, before Martin Luther King, Jr., made his famous march from Selma to Montgomery to press for civil liberties. A lot has happened in the last four decades in America, except in defining poverty.

To set our poverty thresholds, we still rely on the early 1960 cost of providing a minimally adequate food plan to a family, based on information that families spend about one-third of their aftertax income on food in the mid 1950s. We multiplied that amount by three and there's our number. Other than updating for inflation, we're applying a 1963 standard based on 1950 data in 2007. It really doesn't make sense to me, and that is why we are here today.

During this period, the proportion of family income dedicated to food has significantly declined while the proportion needed for other necessities, such as housing and medical care, has grown considerably. Mothers have become an integral part of the workforce and therefore childcare has become a major family expense. Food stamps and the Earned Income Tax Credit were established to provide direct assistance to low-income households. Of course, standards of living in America have generally increased over the last four decades. Our poverty measurement has largely ignored all of these developments. An accurate reflection of poverty is important for several reasons.

A valid measure illustrates how many Americans are failing to meet the basic standard of economic need. It also indicates the impact that policies and programs have on reducing that level of need. Finally, it is critically important in the targeting of resources to individuals, to communities and to States. In fact, over 80 Federal programs reference some percentage of the Federal poverty program in determining individual eligibility or funding allocations for States.

To comprehensively update our poverty measure, we need to consider what constitutes a minimal level of economic well-being and what income, benefits and costs should count toward and against that threshold.

There have been many past recommendations for such a revision, including the National Academy of Sciences'. The vast majority of these proposals show more Americans living in poverty than under



the official measure. In contrast, however, a few have suggested that we look at only half of the equation adding additional sources of income, such as earned income tax credit. Taken by itself, such a step would continue to ignore changes in consumption patterns and in general standards of living.

It means the basic needs of the poor are permanently fixed in time. At various times in our history, indoor plumbing, central heating and refrigerators were not considered a basic need. Does anyone here want to suggest that they are not a basic need today?

Now, I look forward to hearing from our witnesses today about alternative ways to measure poverty to ensure that we are accurately counting every American who has trouble meeting those crucial needs.

I now want to yield to my ranking member, Mr. Weller.

Mr. WELLER. Good morning. Thank you, Mr. Chairman. I welcome the witnesses before our Committee and thank you for your time in joining us today.

Today's hearing involves how our country measures poverty. This follows prior hearings in this Subcommittee and the full Committee in which we explored the cost of poverty; how U.S. poverty measurement differs from other countries and possible solutions to poverty. As several members on this side of the aisle said in prior hearings, one of the first failings of our current poverty measure is the fact it does not count tens of billions of dollars in taxpayer funded assistance provided to reduce poverty for literally millions of families.

This omission limits the usefulness of today's poverty measure. It also devalues the sacrifices of taxpayers who pay for those benefits with their hard-earned tax dollars and increases the apparent number of families in poverty. Several witnesses today suggest counting the value of more antipoverty benefits to determine whether families are poor or not.

Major assistance not counted today includes food stamps, public housing, the earned income tax credit and healthcare coverage. These also constitute the fastest growing portions of our nations' effort to help low income families escape poverty. So, unless we act, more and more of our effort to alleviate poverty will be ignored each passing year. Consider what this means for families.

Let's say the Jones family of four has an annual income of \$30,000, all from wages. Current rules count wages as income for purposes of judging whether a family is poor. Since the poverty threshold for a family of four is about \$20,000, and the income of the Jones family is above that level, the Jones family is officially not poor. Now, let's say they have neighbors. The Smith family is also a family of four. The Smith family also has a total of \$30,000 in annual income, but the Smith's income comes from multiple sources: \$18,000 from wages; plus a total of \$12,000 in housing, healthcare, food stamps, and earned income tax credit benefits provided by taxpayers.

Under current rules, none of the \$12,000 in taxpayer benefits provided the Smith family is counted as income. So, since their \$18,000 in wages fall short of the \$20,000 poverty threshold for a family of four, the Smith family is officially poor. This makes little sense.

That's why I introduced a bill yesterday that would provide more clarity about both the extent of poverty in the United States and the effectiveness of current antipoverty programs. My legislation, H.R. 3243, would direct the Census Bureau to report on poverty as measured three ways. First, Census would retitile the current official poverty rate as the partial benefits poverty rate, which is what it is. The second measure, called a full benefits poverty rate, would count means tested food, housing and healthcare benefits as income.

The final measure, called the full benefits and taxes poverty rate would also add in the value of tax credits, like the earned income tax credit and subtract taxes paid. This legislation will help us better understand both who is poor and the effectiveness of current antipoverty benefits. While this hearing today will help us understand how poverty is measured, that's not enough. We also need to press on with what works to reduce poverty.

As we saw in the progress against poverty following the 1996 Welfare Reform law, that starts with promoting more full-time work instead of welfare dependence and it also means promoting more healthy marriages, which also reduce poverty and welfare dependence for the long run.

Mr. Chairman, I look forward to hearing from the witnesses; and, I again thank them for their participation today.

Chairman MCDERMOTT. Thank you, we welcome all of you, and as my colleague has said we thank you for coming here and spending your time trying to educate us about how to make better public policy.

We will start today with Dr. Ruggles, who is at the National Academy of Sciences.

Dr. Ruggles.

Dr. RUGGLES. Thank you.

Chairman MCDERMOTT. If you will press that button so you are on and your full statements will all be in the record. So, we would like you to try and summarize and stay within 5 minutes, if you can. Somewhere we have a light I guess. It's over there.

Dr. RUGGLES. All right, thank you.

Chairman MCDERMOTT. Please

**STATEMENT OF PATRICIA RUGGLES, NATIONAL RESEARCH,  
COUNCIL OF THE NATIONAL ACADEMY OF SCIENCES**

Dr. RUGGLES. Well, I am happy to be here today, Mr. Chairman and Mr. Weller, and I have to say, Mr. Chairman, you've already managed to say in your opening statement many of the things that I have planned to say here today.

Chairman MCDERMOTT. That's why I talk first.

Dr. RUGGLES. In my testimony today I plan to first review the existing measure and its limitations, and then discuss some alternatives for revising the measure, including the NAS recommendations. Then finally, I want to consider the implications of that kind of a revision for public policy programs.

As you noted, it's been more than 40 years since our official poverty measure was first designed and most experts believe that it is now seriously out-of-date. The measure grew out of a series of studies undertaken by Mollie Orshansky for the Social Security Ad-

ministration in the early 1960s. Orshansky started with a series of food budgets put together by the Department of Agriculture. These food budgets gave her the amount of money families of different sizes and types would need to spend annually to assure a minimally adequate diet. Then using data from a 1955 survey, she calculated that average families spend about one-third of their total incomes on food. Lacking any other data, she just multiplied her food budgets by three to get approximate levels of basic needs.

Although Orshansky's estimates of basic needs, which she termed "poverty thresholds," were necessarily very approximate, they were a considerable advance over earlier work because at least they recognized that needs varied by family size and type. In 1969 a slightly modified version of the Orshansky scale became the official poverty level for the United States statistical establishment as a whole. Since 1969 the measure has been subjected to considerable criticism, but it still forms the basis for our official poverty measure.

Much of the discussion about the Orshansky measure focuses on the specific poverty thresholds that it calculated, but Orshansky made another choice that's also been very important for poverty measurement over time. That is she chose to look at only pre-tax cash income. The official poverty measure actually consists of two parts. The set of thresholds that she calculated and the measure of family resources that is compared to the threshold. In order to decide if a particular family is poor, its income or consumption level is compared to the threshold and a level of poverty is determined based on whether the family's resources fall above or below that threshold, just as in the example that Mr. Weller gave.

When Orshansky put together her measure, pre-tax, cash income was all she could measure. That was all we had survey data on. But we now collect data on a whole lot of other things, like, for example, the non-cash benefits that families get, but also things like the work expenses that they need to pay in order to go to work, for example, as Mr. McDermott mentioned, many families today include working mothers. Many of those mothers must pay for childcare in order to earn the money that they bring home. It doesn't make sense in thinking about how much money they have available to pay for rent and to buy food, not to include those childcare expenses as something that they must pay.

So, it's not just on the addition side that we need to worry about correctly measuring income. We also need to worry about things that get subtracted from income. Either way, in thinking about income, it's important to keep in mind that in comparing income to thresholds, you can't just change one side of the equation. If you're going to update the income measure to take into the account the different kinds of income that people get today and the joint expenses they have, you also need to think about adjusting the thresholds.

Most economists believe, as Adam Smith put it as long ago as 1776, that people can be considered poor if they are unable to afford the things that, as he put it, "the custom of the country renders it indecent for creditable people, even of the lowest order, to be without." In other words, poverty is not just the inability to afford a subsistence diet. It varies from time to time and place to

place. The implications of this belief for poverty measurement can be envisioned by imagining a poverty line set in 1900.

At that time, basic needs would not have included indoor plumbing, central heating, electricity, or many other needs that we now take for granted, because the custom of the country did not include those things, even for most of those who were well off, let alone of the lowest order. Today, however, Americans who cannot afford those things would generally be considered poor. Indeed, a poverty threshold that did not include those things would be fairly meaningless, since it would be very difficult for the urban poor in particular to find housing without them. Failing to include them in budgets, therefore, would restrict the poor to a standard of housing that no longer exists in this country and would not be acceptable to most.

An approach to measuring poverty that takes into account changes in standard of living over time is often referred to as a relative poverty measure, as opposed to the absolute poverty measure embodied in our official thresholds. Some analysts argue that an absolute measure, one that sets a poverty line at a fixed level at a particular point in time and then subsequently adjusts only for changes in prices, is needed to assess programs because a measure adjusted for changes in standards of living presents too much of a moving target.

Such analysts assert that if the poor become better off in material terms because society as a whole is becoming better off, that's important evidence of public policy success and should be taken into account in measuring the need for continued assistance. Most countries do use some kind of relative poverty measure, but I think there is a general consensus that that is probably not what we most would like to do in the United States.

**Table 1: Characteristics of Alternative Poverty Measures**

|                                       | <b>Official Measure</b>                                      | <b>NAS Panel Measure</b>                                      | <b>50 % of Median</b>         |
|---------------------------------------|--|---|-------------------------------|
| <b>Thresholds</b>                     | Based on 1955 food consumption survey                        | Based on current consumption needs                            | Based on median family income |
| <b>Non-Cash Income</b>                | Excluded   | “Cash-like” sources included                                  | Excluded                      |
| <b>Out-of-Pocket Medical Expenses</b> | Not considered   | Deducted from income  | Not considered                |
| <b>Work Expenses</b>                  | Not considered   | Deducted from income  | Not considered                |
| <b>Taxes</b>                          | Not considered   | Deducted from income  | Usually not considered        |
| <b>Family size adjustment</b>         | Based on food needs for a 1969 mix of family sizes and types | Based on the relative needs of additional adults and children | Usually none                  |

There have been a number of reassessments of the measurement of poverty in the United States over time and this chart compares some of them. The black line that goes right across the middle is our current, official poverty threshold, which since it is adjusted only for prices when you look at it in fixed dollars, it is just a straight line.

The other measures that you see here are a relative threshold; one set at 50 percent of the median income, a measure based on Gallup Poll results that reports what people think is the amount that is minimally necessary for people not to be poor; and then finally that little green line at the end are the thresholds developed by the National Academy of Sciences. As you can see, the median family income line and the subjective line started out below the official threshold, cross over it just about at the time Mollie Orshansky set her thresholds and have continued to rise over time.

We do not have the data to calculate the NAS measure back nearly as far as those other two measures, but you can see on this chart that it falls somewhere between the official measure and a purely relative measure.

As I have mentioned, the most serious and comprehensive reassessment of the U.S. poverty measure to date was undertaken by the National Research Council of the National Academies of Sciences in the early 1990s in response to a congressional mandate. This scientific study by an independent panel of experts led to the report, “Measuring Poverty: a New Approach.” In setting poverty thresholds, the Academy recommended an intermediate approach that was neither strictly absolute nor entirely relevant. Under the NAS approach, a market basket of basic goods, including food,

clothing, shelter and a small allowance for other needs would serve as the basis for a new set of poverty thresholds.

Unlike our official thresholds, these thresholds would be adjusted for differences in cost of living in different parts of the country. The method for adjusting for differences in family sizes would be updated to reflect differences in family needs. Finally, the thresholds would be updated periodically based on consumption patterns as consumption patterns changed and ideas about what constituted basic needs changed, the thresholds would change with them. This type of approach is more difficult to implement than the present system, because it requires some judgment calls about what people need, but it has the advantage of tracking what most people mean by poverty much more closely than either the official measure or a purely relative measure. This type of updating is not unprecedented.

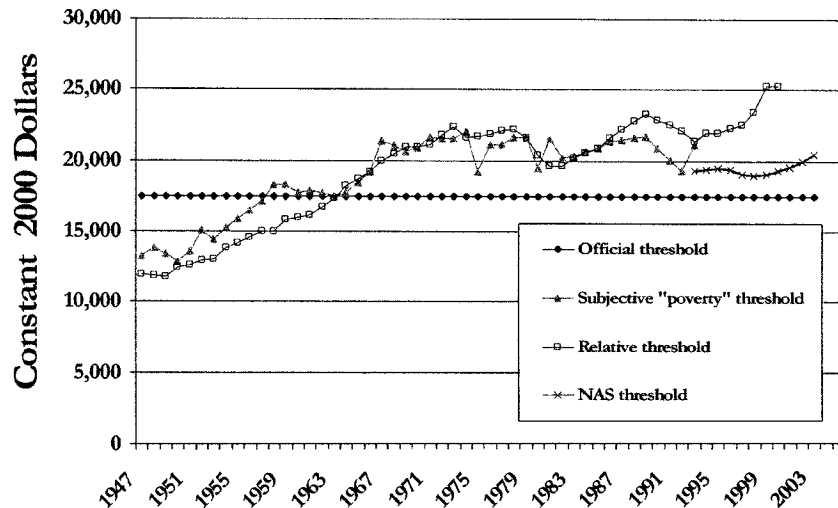
Similarly, periodic revisions are used to update the market basket underlying the consumer price index, for example. A measure of this type will generally increase more over time than a strictly absolute measure. Because the standards of living rise, people generally raise their expectations for even minimal consumption levels. But the increases will be linked to changes in consumption levels and costs rather than to changes in income.

Wrap it up. Okay, well just quickly before we do, the chart that should be up here and isn't—if you could make that go up.

Chairman MCDERMOTT. Do we put in the cost of technology?

Dr. RUGGLES. There we go. Yes, really.

### Poverty Thresholds For Four-Person Families, 1947-2003



Dr. RUGGLES. This chart summarizes the differences between the NAS recommendations and both the official measure and a purely relative measure. The main differences are the thresholds,

which are based on current consumption rather than either income or an old consumption survey. It includes some non-cash income. It deducts out-of-pocket medical. It deducts work expenses. It deducts taxes. The family size adjustment is based on something other than the mix of family sizes and types that was around in 1969.

[The prepared statement of Dr. Ruggles follows:]

**Prepared Statement of Patricia Ruggles, Ph.D., National Academy of Sciences**

\* Views expressed in this testimony are solely those of the author and should not be taken to reflect those of her current employer, the National Research Council of the National Academies.

Mr. Chairman and members of the Committee, I am happy to be here today to discuss the measurement of poverty. Poverty measurement is important for public policy, because many of our programs are designed to help the neediest among us. A good measure of the extent of that need is essential in designing programs that will alleviate poverty and that will help to ensure equality of opportunity for all Americans.

Unlike most other countries, the United States has an official poverty measure, which has been widely used in designing and assessing programs to combat poverty. That measure is a legacy of the War on Poverty, and over time it has been very helpful in identifying those who need help, and in understanding what does and doesn't work in providing that help. It has been almost 50 years since that measure was first designed, however, and most experts believe that it is now seriously out of date.

In my testimony today I will discuss three topics relating to the poverty measure. First, I will review the existing measure and will outline its limitations. Second, I will discuss some alternatives for revising that measure. And finally, I will consider the potential implications of such a revision for public assistance programs.

*The Official Poverty Measure*

The current official poverty measure grew out of a series of studies undertaken by Mollie Orshansky for the Social Security Administration in the early and mid-1960s. Orshansky did not have the wealth of studies on needs and consumption that we have today available to her at that time, so she used the best proxies that she could find.

She started with a series of food budgets put together by the Department of Agriculture. These were much like today's Thrifty Food Plan (TFP), the food needs index used to set food stamp levels. These food budgets gave her the amount of money families of different sizes and types would need to spend to assure a minimally adequate diet. Then, using data from a 1955 survey, Orshansky calculated that on average families spent about one-third of their total incomes on food. Lacking any other data, she simply multiplied her food budgets by three to get approximate levels of basic needs for all goods and services.

Although Orshansky's estimates of basic needs—termed poverty thresholds—were necessarily very approximate, they were a considerable advance over earlier work in that they at least recognized that needs varied by family size and other factors. Once Orshansky's scale had been published, it was widely adopted by other researchers. Finally, in 1969 a slightly modified version of the Orshansky scale was mandated by the Bureau of the Budget (predecessor of today's OMB) as the official poverty measure for the government statistical establishment as a whole. These thresholds were to be updated each year to reflect changes in prices, but nothing else. Since 1969 the Orshansky measure has been subjected to considerable criticism, but, with minor changes, it still forms the basis for the official poverty measure.

Much of discussion about the Orshansky measure focused on the specific poverty thresholds it calculated, but Orshansky also made another choice that had important implications for the official poverty measure. The official poverty measure actually consists of two parts—the set of thresholds discussed above and a measure of family resources that is compared to those thresholds. In order to decide if a particular family is poor, its income or consumption level is compared to the threshold, and a level of poverty is determined based on whether the family's resources fall above or below the threshold. In making this comparison, Orshansky used the only measure of family economic resources available to her—pre-tax cash income. Although we now collect data on many other aspects of family needs and resources,

the official poverty definition still bases its estimates on pre-tax cash income. This measure has become more and more outdated as taxes, non-cash benefits, and work expenses such as child care have come to play a larger role in family budgets.

*Alternative Measures of Poverty*

In considering alternatives to our official poverty measure, we must examine both the thresholds used to define poverty and the methods used to compute the incomes that are compared to those thresholds. Adjusting one side of the measure without changing the other produces misleading and often contradictory results. For example, adding non-cash benefits such as child care subsidies to income, without adjusting the thresholds to reflect the increased need for child care as more and more mothers of young children work outside the home, will obscure the very real hardships faced by many working mothers and their children. Ultimately, any proposed alternative must be assessed in terms of its treatment of both sides of the measure.

*Setting Poverty Thresholds.* Two major types of criticism have been leveled at the thresholds embodied in the official poverty measure. First, there have been many technical complaints. The adjustments for family size and type, for example, are based on the distribution of family sizes in the population in 1969, and bear little resemblance to today's needs. In fact, the entire needs measure is rather ad hoc, and many revisions have been suggested. Family needs have also changed as more family members have gone into the labor force, and as the numbers of single-parent families has risen.

The second type of criticism of the official poverty line is much more fundamental. Most economists believe, as Adam Smith put it in 1776, that people can be considered poor if they are unable to afford the things that "the custom of the country renders it indecent for creditable people, even of the lowest order, to be without." In other words, poverty is not just the inability to afford a subsistence diet; instead, the meaning of poverty varies from time to time and place to place.

The implications of this belief for poverty measurement can be envisioned by imagining a poverty line set in 1900, for example. At that time, basic needs would not have included indoor plumbing, central heating, electricity, or many other things that we now take for granted—because the "custom of the country" did not include those things even for most of those who were well-off, let alone those "of the lowest order." Today, however, Americans who cannot afford those things would generally be considered poor. Indeed, a poverty threshold that didn't include them would be fairly meaningless, since it would be very difficult for the urban poor, in particular, to find housing without them. Failing to include them in budgets, therefore, would restrict the poor to a standard of housing that no longer even exists in this country, and would not be acceptable to most as a basis for public policy.

An approach to measuring poverty that takes into account changes in standards of living over time is often referred to as "relative" poverty measure, as opposed to the "absolute" poverty measure embodied in our official thresholds. Some analysts argue that an absolute measure—one that sets a poverty line at a fixed level at a particular point in time and that subsequently adjusts only for changes in prices—is needed to assess programs, because a measure adjusted for changes in standards of living presents too much of a moving target. Such analysts assert that if the poor become better off in material terms because society as a whole is becoming better off, that is important evidence of public policy success and should be taken into account in considering the need for continued assistance programs. A relative approach to poverty measurement, in contrast, is seen by such analysts as biased toward continuing high poverty rates, because progress against poverty can only be made if the underlying distribution of resources changes. People who are in favor of helping those in need do not necessarily favor large changes in the distribution of income, which supporters of an absolute measure argue would be necessary to show progress under a relative poverty measure.

Most developed countries use some type of relative measure in assessing progress against poverty, however. The OECD has published a measure based on 50 percent of median family income, for example, while Eurostat uses a measure based on 60 percent of the median. Such measures increase over time as family incomes increase, but continue to identify those whose resources fall substantially below the norm. Interestingly, Orshansky's threshold for a two parent, two child family fell at about 50 percent of median income when it was first introduced. Because it has been updated only for price changes over time, however, the official poverty threshold for such a family has now fallen to about 35 percent of median family income.

While this type of income-related measure does give policy makers useful information about relative resources, it has a few drawbacks as a poverty measure. One of the most important is that when incomes fall during a recession, the poverty thresholds will fall too, even though basic needs may not have declined. More broadly, this



measure does indeed track resources rather than needs over time, and as such does not directly measure how many people have a level of resources that society might consider “indecent.”

Various proposals have been made over time to update the official poverty measure. A thorough assessment by an interagency task force in 1976 concluded that even then the measure was seriously out of date and needed revision, but the proposed revisions were never implemented.

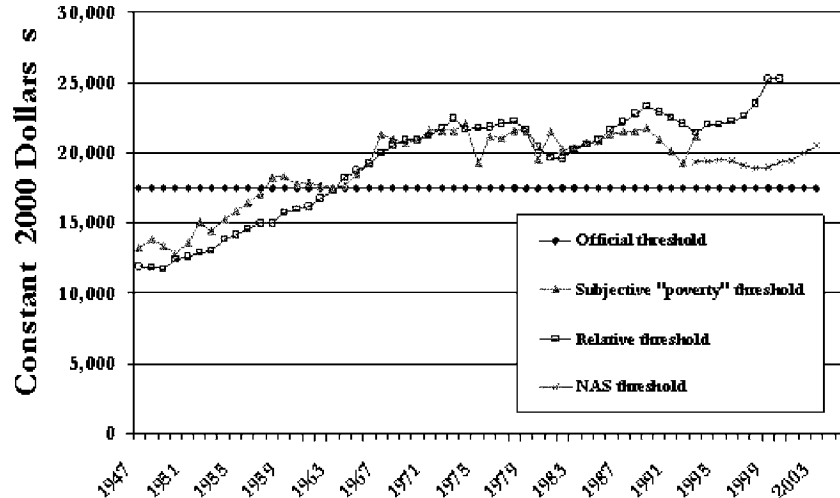
The most serious and comprehensive reassessment of the U.S. poverty measure was undertaken by the National Research Council (NRC) of the National Academy of Sciences (NAS) in the early 1990s, in response to a Congressional mandate. This scientific study by an independent panel of experts led to the report *Measuring Poverty: A New Approach*. This study made a number of important recommendations relating both to the setting of poverty thresholds and to the measurement of economic resources.

In setting poverty thresholds, the Academy report recommended an intermediate approach that was neither strictly absolute nor entirely relative. Under the NAS approach, a market basket of basic goods including food, clothing, shelter, and a small allowance for other needs would serve as the basis for a new set of poverty thresholds. Unlike our official thresholds, these thresholds would be adjusted for differences in costs of living in different parts of the country. The method for adjusting for differences in family sizes would also be updated to reflect today’s family needs. Finally, these thresholds would be updated periodically as people’s consumption patterns—and thus, their ideas about what constitute “basic needs”—changed over time.

This type of approach is somewhat more difficult to implement than the present system, because it requires some judgment calls about what people need, but it has the advantage of tracking what most people mean by poverty much more closely than either the official measure or a purely relative measure. And this type of updating is not unprecedented—similar periodic revisions are used to update the market basket underlying the Consumer Price Index, for example. A measure of this type will generally increase more over time than a strictly “absolute” measure, because as standards of living rise people generally raise their expectations for even minimal consumption levels, but the increases will be linked to changes in consumption levels and costs rather than to changes in income. Research on what the public thinks is a minimum for “basic” needs, based on Gallup poll data, shows that the level has indeed risen over time, but not as much as income has risen.

The figure below, put together by John Iceland, shows how poverty thresholds (adjusted for changes in prices) would have varied over time under four different measures—the official measure, a relative measure at 50 percent of median income, a subjective measure based on polling data, and the NAS-recommended measure. As can be seen, all three of the alternative measures would have produced higher thresholds than the official measure, but the NAS measure falls between the official measure and an entirely relative measure.

## Poverty Thresholds For Four-Person Families, 1947-2003



*Measuring Economic Resources.* Poverty thresholds, however, are only half the story. The official poverty measure also uses a method of computing family income that is widely considered to be seriously outdated. When Orshansky undertook her original studies, the only information on family incomes that was available was about cash income before taxes. This was not as big a limitation in 1963 as it is today, because there were few regular sources of non-cash benefits and the poor paid very little in taxes—and received no refundable credits. Orshansky also failed to account for work expenses such as day care in measuring poverty, but again that was not as large a limitation when most families had only one earner and single mothers were comparatively rare.

Today, of course, the story is different. Low-income families often pay substantial payroll taxes, and many qualify for the refundable Earned Income Tax Credit. Many receive non-cash benefits such as food stamps and housing subsidies that effectively work like cash in increasing their ability to meet basic needs. And many working mothers must pay for child care—leaving their net earnings substantially lower than their apparent cash incomes. The NAS report recommended taking all of these changes into account in computing family incomes. The official measure, however, is still based strictly on pre-tax cash income.

Another change in the computation of income recommended by the NAS report was that out-of-pocket medical expenses should be deducted from income in considering whether or not someone is poor. The logic of this recommendation is that low-income families are likely to have little choice about paying for medical care and prescriptions, and anything they must spend on health care comes out of the funds available for other basic consumption needs.

Over time, the cost of medical care has risen dramatically, and more recently the number of uninsured has also increased. These factors have considerably increased the amount that low-income people, especially the elderly, must spend on their medical needs. It is also true that the quality of care has improved substantially—many people are alive today who would have died at a younger age given the medical standards of the 1960s. But if we do not allow for the costs of today's medical care in setting poverty standards, many lower-income people with expensive medical needs will not be treated as poor, even if they have very low disposable incomes. In effect, most observers argue, not counting those needs in measuring poverty implies that advances in medical care since the 1960s should only be available to those with higher incomes.

Theoretically, the costs of medical care could be incorporated into the measure of basic needs—the poverty thresholds—rather than being deducted from income. In

practice, however, out-of-pocket medical expenses vary so much from person to person that a one-size-fits-all threshold cannot adequately take them into account. It is for this reason that the NAS recommended that they be deducted from the income measure instead.

The table below summarizes the differences between the official poverty measure, a revised measure like the one recommended by the NAS panel, and a purely relative measure such as 50 percent of the median income. It suggests that a measure based on the NAS recommendations is more closely attuned to the specific needs and resources of the low-income population than either the official poverty measure or a purely relative measure.

**Table 1: Characteristics of Alternative Poverty Measures**

|                                | <b>Official Measure</b>                                      | <b>NAS Panel Measure</b>                                      | <b>50% of Median</b>          |
|--------------------------------|--|---|-------------------------------|
| Thresholds                     | Based on 1955 food consumption survey                        | Based on current consumption needs                            | Based on median family income |
| Non-Cash Income                | Excluded   | “Cash-like” sources included                                  | Excluded                      |
| Out-of-Pocket Medical Expenses | Not considered   | Deducted from income  | Not considered                |
| Work Expenses                  | Not considered   | Deducted from income  | Not considered                |
| Taxes                          | Not considered   | Deducted from income  | Usually not considered        |
| Family size adjustment         | Based on food needs for a 1969 mix of family sizes and types | Based on the relative needs of additional adults and children | Usually none                  |

*Implications for Public Programs of Revising the Poverty Measure*

In assessing the direct impact on federal programs of changes in the poverty measure it is important to understand that there are actually two versions of the measure. In addition to the poverty thresholds published by the Census Bureau for research and statistical purposes, there are “poverty guidelines” published by the Department of Health and Human Services (HHS). These are the poverty measures used for administrative purposes such as determining program eligibility.

The HHS guidelines are closely related to the Census measures, but have a few differences. First, Census’s thresholds are determined for past years only—when new poverty estimates come out in August or September of each year, they are based on the previous year’s income data. For example, poverty rates for 2006 will be announced later this month. Because inflation rates for 2007 are not yet known, Census cannot yet calculate the poverty thresholds for 2007.

The poverty guidelines, which come out in February, are based on the thresholds produced by Census the previous fall, but are updated using preliminary inflation estimates—so that estimated 2007 thresholds are applied to program determinations made in 2008. The guidelines also use a simplified and more rational set of family size adjustments than those used in the official measure. Finally, the guidelines refer only to the poverty thresholds—methods of determining the income to be compared to the guidelines are left up to individual program rules. Few programs use income-computing methods anything like those used by Census for the official poverty measure. For example, most programs allow for the deduction of work expenses, and many take into account benefits received from other programs.

The two biggest programs that use the federal poverty guidelines in their eligibility criteria are the Food Stamp Program (FSP) and Medicaid. Both programs implicitly recognize that the thresholds produced under the guidelines are unrealistically low; the FSP sets gross income eligibility at 130 percent of the poverty guidelines, while Medicaid uses 133 percent. The school lunch and breakfast programs use 130 percent of the guidelines to determine eligibility for free meals, and 185 percent for reduced-price meals. Special subsidies for prescription drugs are also available under Medicare for individuals below 130 percent and 150 percent of poverty.

Census poverty estimates (although not generally the thresholds themselves) are used for some program-related purposes. A typical use involves poverty estimates for states and localities, which are considered as one factor in a multi-factor funding—allocation formula. These estimates are not based on the same data as the national poverty rates published each year by the Census Bureau; instead, they are

produced using Decennial Census and American Community Survey data, which are inputs into models of changing local-area incomes over time. The largest program using such estimates is the Title I grant program for education.

In other words, although many programs address the problem of poverty, and others take poverty-related issues into account in allocating funds, the Census poverty thresholds themselves are not generally a direct factor in program design. The major programs that use the HHS guidelines in determining eligibility all use levels that are well above the Census thresholds, implying that program designers are aware that current threshold levels are unrealistic. And the programs that use Census poverty numbers in allocating grants use estimates produced by a complex model based on data that is several years old.

Introduction of an alternative Census poverty measure, therefore, might not have any direct impact on program eligibility, depending on the relationship between that alternative and the HHS guidelines. If both the current official measure and the alternative were maintained for some time, the HHS guidelines could continue to be computed exactly as they are now. Over time, alternative calculations of the guidelines could be modeled and program rules could be modified appropriately on an as-needed basis. And over the longer run, a measure that tracked changing needs more closely than the official measure does would presumably improve program eligibility assessments.

Similarly, producing an alternative measure would not necessarily affect programs with funding allocated by formulas involving poverty, at least in the short run. Most of these formulas depend on the comparative poverty status of a specific locality relative to the state or the nation as a whole. These estimates of comparative poverty status are typically not very sensitive to small differences in the specific poverty thresholds used. In fact, any changes allocations resulting from changes in the thresholds might be hard to identify, because typically local poverty rates are only one factor in the allocation formula and the other factors are also changing over time. In any case, the official thresholds would almost certainly have to be used for small area poverty estimation in the near future, until new data were available and the models could be updated. In the longer run, switching to a poverty measure that tracks real needs more closely might be expected to improve our ability to allocate funds appropriately.

#### *Conclusion*

There is a widespread consensus among experts that a revision of the official U.S. poverty measure is both feasible and needed. The current measure is based on underlying data, assumptions, and measurement methods that were assembled more than 40 years ago. Without an update, the measure is becoming progressively more removed from a real measure of needs. No other major statistic produced by the federal government has been issued over so long a period of time without being re-benchmarked and having its methodology updated. It is time for a revision of the poverty measure similar to those that are performed routinely for other measures such as the Consumer Price Index (CPI) and Gross Domestic Product (GDP).

The alternative measure produced using the recommendations of the NAS panel on poverty measurement does a good job of addressing the shortcomings of the current official poverty measure. The Census Bureau has already produced a series of estimates of poverty under this measure, showing that it can be implemented. Some details of the measure remain to be determined—there are possible variations in data and methods for measuring some income sources and expenses, for example. But these issues could be quickly addressed either through an interagency task force or with the help of outside experts, as was done in the case of the CPI. And as Census's work so far has demonstrated, all of the variations on this methodology produce a consistent picture of need in the U.S. that differs in important ways from the picture obtained using the official measure.

Revising the poverty measure doesn't have to mean radical short-run changes in federal programs, however. The Census poverty thresholds are not a direct input into program rules, and they have only an indirect effect on funding-allocation formulas. Further, as with any change in methodology, the effects of the revision should be tracked over time. For the next several years the current measure and the alternative could both be produced so that the potential impacts of the change can be assessed. Over the longer run, anti-poverty programs can only be improved by using a poverty measure that does a better job of tracking changes in the needs of the poor.

Thank you for this opportunity to testify, and I look forward to answering any questions you may have.



Chairman MCDERMOTT. Thank you.

Dr. Iceland is Associate Professor of Sociology at the University of Maryland and I think once worked with the Census.

Dr. Iceland.

Dr. ICELAND. Thank you. Thank you for having me here today.

Chairman MCDERMOTT. Do you want to turn on your microphone so that the reporter can get it down?

Dr. ICELAND. Sure.

**STATEMENT OF JOHN ICELAND, PH.D., ASSOCIATE  
PROFESSOR OF SOCIOLOGY, UNIVERSITY OF MARYLAND**

Dr. ICELAND. Thank you, Chairman, and members of the Subcommittee.

I appreciate having this opportunity today to talk about these issues. In this short presentation, I will talk about different kinds of poverty measures, focusing on absolute, relative, and the NAS recommended measure. I will elaborate on some of the themes mentioned by yourself and Dr. Ruggles. I will discuss their strengths and weaknesses and show results of what poverty rates look like when using the different measures.

Overall, here is the story I wanted to leave you with. While various poverty measures are useful, I believe the NAS panel-recommended measure is the single-most informative one, because, first, it measures the ability of families to meet their basic needs, while second, it also takes into account the fact that such needs can change over time. Let me take a step back and talk briefly about what absolute and relative poverty measures are.

They both involve comparing a family's income to a poverty threshold to determine whether that family is poor. Absolute measures, such as the current U.S. official measure, use thresholds that typically attempt to define a truly basic need standard. Relative measures, more commonly used in Europe, explicitly define poverty as a condition of comparative disadvantage. Thresholds are often pegged at, say, 50 percent of median household income. The key distinction between the two is that absolute poverty lines remain constant over time, while relative ones rise in real dollars as standards of living rise.

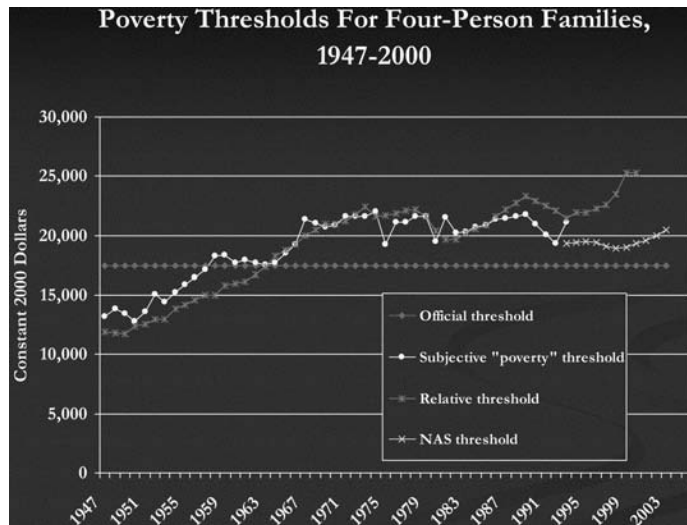
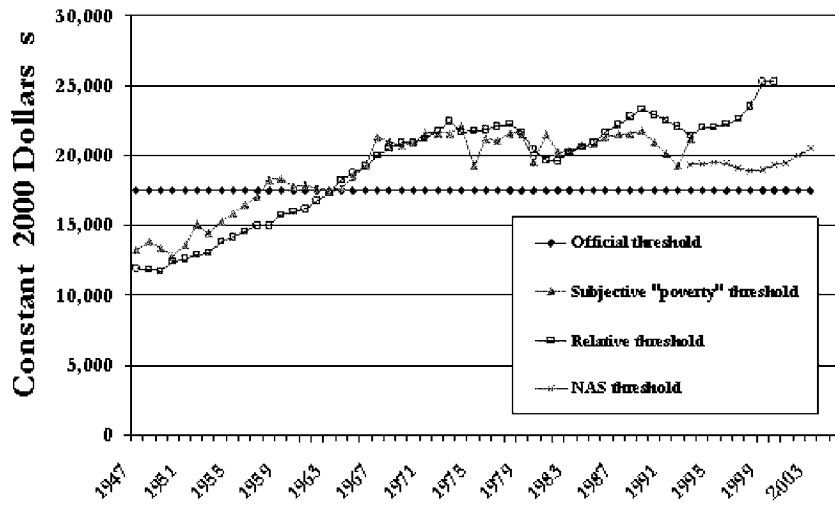
The NAS panel proposed a hybrid, sometimes termed "quasi-relative poverty measure." The thresholds of such a measure changes as real spending on basic goods change. Because the poverty lines can change over time in real dollars, the measure is at least in part relative. However, since it is not based on mean or median incomes as most relative poverty measures are, it is not wholly relative either. There are advantages and disadvantages of alternative measures. The main advantage of absolute measures is that they are easy to understand. For example, if there is starvation and hunger, then there is clearly poverty, regardless of general standards of living.

The main theoretical criticism of absolute measures is that what people judge to be poor varies across time and place. In addition, sometimes real needs also rise in richer countries. For example, a poor family cannot simply build a shack on the outskirts of a U.S. city without getting in trouble for violating building ordinances. If you own a car, then you must pay insurance leaving less money to

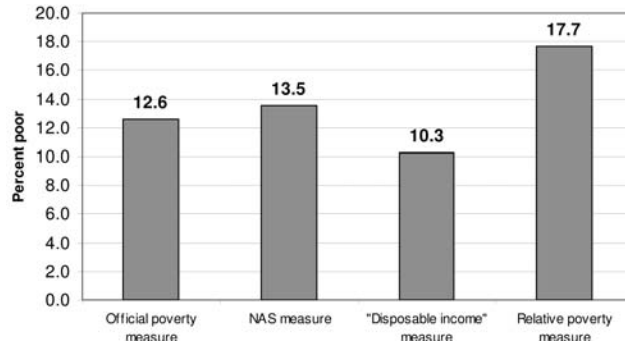
meet other needs. Such requirements would be unreasonable in societies with low standards of living.

I would like to just briefly show the figure also shown in Dr. Ruggles' testimony to make a couple of additional points and to highlight the different measures.

### Poverty Thresholds For Four-Person Families, 1947-2003



U.S. Poverty Rates, by Measure: 2005



| Poverty Rates for Individuals by Demographic Characteristics and Measure |                          |  |
|--|--------------------------|--|
|  | Official poverty measure | NAS-related measure (but with CPI-adjusted thresholds) |
| <b>All people</b>  | 12.6                     | 12.6   |
| People in married-couple families  | 5.9                      | 6.3  |
| People in female householder families                                    | 31.1                     | 27.0   |
| People in male householder families                                      | 13.4                     | 15.1   |
| <b>Age</b>   |                          |  |
| Under 18 years   | 17.6                     | 13.9   |
| 18 to 64 years   | 11.1                     | 11.4   |
| 65 years and over  | 10.2                     | 16.5   |
| <b>Race and Hispanic Origin</b>  |                          |  |
| White  | 10.6                     | 11.0   |
| Non-Hispanic White   | 8.3                      | 9.0  |
| Black  | 24.9                     | 21.9   |
| Asian  | 11.2                     | 11.9   |
| Hispanic (any race)  | 21.8                     | 21.0   |

Dr. ICELAND. So, again, here from the previous figure we saw the absolute poverty threshold, which remains the same over time, being as it is an absolute measure. There were questions asked by Gallup on what people thought about poverty. Notice how well it tracks median incomes. This is half the median income. The last thing I would like to note from here, at the end we have the NAS threshold, which goes back only to the early 1990s. The version of the NAS threshold that includes out-of-pocket medical expenses shown here is a little higher than the official threshold, though the two thresholds closely tracked each other for most of the 1990s.

However, the NAS threshold rose modestly more quickly after 1999 when real spending on a basic bundle of items rose faster than inflation, largely due to relative increases in housing and medical costs. Thus, the NAS measure again takes into account real changes in need, while the official threshold does not.

Figure 2 shows using different poverty measures, so the poverty rate is highest when using the relative poverty measure, whose thresholds are higher than those used in the other measures. The

“disposable income” measure, which recently appeared in a Census report, shows the lowest poverty rate, because it has a more refined measure of family resources that includes among other things in-kind transfers as it should.

However, this measure still uses the outdated referenced family official threshold. The NAS poverty rate is only modestly above the official rate, because it has a higher threshold, but takes into account in-kind benefits. My written testimony provides more details on these issues, including how poverty rates differ across demographic groups when using alternative measures.

To conclude, poverty measurement efforts in the U.S. are approaching a crossroads. A key theoretical issue is whether poverty should refer to a subsistence standard, such as severe malnutrition, economic marginalization or something in between. The NAS panel-recommended measure has the advantage of increasing, in real terms, spending on basic items increase, as to reflect changes in real standards of living. Yet, it is not responsive to changes in spending patterns on other more discretionary items such as luxury goods that may occur as median incomes rise and thus reflected in purely relative poverty measures.

Thus, while all of these measures tell something useful about people’s economic well-being, the NAS measure is in my view the single most informative poverty measure among them. While no measure will ever garner universal support, this NAS measure very much represents a broad consensus among a wide array of social scientists on how to best measure poverty.

[The prepared statement of Dr. Iceland follows:]

**Prepared Statement of John Iceland, Ph.D., Associate Professor, Sociology Department, University of Maryland, College Park**

Chairman McDermott and members of this subcommittee, I thank you for the opportunity to testify before you. I sincerely applaud your efforts to revisit poverty measurement issues. In order to best target our policy efforts, we, as a country, need to have a good yardstick by which to measure progress.

There are a number of poverty measures one could use to estimate levels of economic well-being in society. Income poverty measures are perhaps the most common. They usually involve comparing a family or household’s income to a poverty threshold to determine whether that family or household is poor. Two basic types of income poverty measures are *absolute* and *relative* measures. Absolute measures, such as the current U.S. official measure, are ones that typically attempt to define a truly basic—absolute—needs standard that remains constant over time and perhaps updated only for inflation, as in the case of the U.S. official poverty measure. Relative measures, which are more commonly used by researchers in Europe, explicitly define poverty as a condition of comparative disadvantage, to be assessed against some evolving standard of living. The key distinction between the two is that absolute poverty lines remain constant over time, while relative ones rise in real dollars as standards of living rise.

In the United States there has been growing dissatisfaction with the current official poverty measure (described in more detail below). At the request of Congress, the National Academy of Sciences (NAS) convened a panel of researchers in the early 1990s to review this poverty measure and make recommendations for a new one. The panel produced a report, *Measuring Poverty*, which proposed a hybrid poverty measure (National Research Council 1995). The thresholds of such a measure would change as real spending on basic goods (e.g., food, clothing, and shelter) change. Because the poverty lines change over time in real dollars, the measure is, at least in part, relative. However, since it is not based on mean or median incomes, as most relative poverty measures are, it is not wholly relative either.

Overall, each of these income poverty measures is informative and they should be viewed as complementary sources of information about people’s economic well-being. My own view, however, is that the hybrid poverty measure recommended by the



NAS panel is the single most informative income poverty measure because it best measures the ability of families to meet their basic needs while also recognizing that such needs can change over time.<sup>1</sup>

### **Background**

#### *The Current Official Poverty Measure*

The current official poverty measure has two components: poverty thresholds and the definition of family income that is compared to these thresholds. Mollie Orshansky, an economist at the Social Security Administration, developed poverty thresholds in 1963 and 1964 by using the “Economy Food Plan” (the lowest cost food plan) for families of different types and sizes prepared and priced by the U.S. Department of Agriculture. To arrive at overall threshold figures, Orshansky multiplied the price of the food plans by three, based on information from the 1955 Household Food Consumption Survey that indicated that families of three or more people had spent about one-third of their after-tax income on food in that year. The thresholds have been updated yearly for inflation using the Consumer Price Index (CPI).

The definition of family resources used to compare to the thresholds is the Census Bureau’s definition of income—gross annual cash income from all sources, such as earnings, pensions, and cash welfare. A family and its members are considered poor if their income falls below the poverty threshold for a family of that size and composition.

The current official poverty measure was, for a time, a sensible indicator of material deprivation in the U.S. At the time of its initial adoption by the Office of Economic Opportunity in 1965, the poverty lines were set at a dollar level that coincided with people’s views of poverty. The method of measuring people’s resources—gross cash income—also managed to fairly accurately capture the income people had to meet their basic needs.

Over the past 40 years, however, the poverty measure has become increasingly outdated. The poverty lines, originally devised by multiplying the cost of food needs by three to account for other needs (such as clothing and shelter), no longer captures families’ basic needs in par because of the rapid growth in housing prices and other expenditures (such as medical care and childcare) relative to food prices. Today, people spend closer to one-sixth or one-seventh of their income on food rather than one-third. While the official poverty threshold for a four-person family once coincided with people’s views of the dollar amount needed to support such a family in the 1960s—as reported in public opinion surveys—this was no longer true by the 1990s (National Research Council 1995).

Many have also argued that the definition of money income used in the official measure—gross cash income—inadequately captures the amount of money people have at their disposal to meet basic needs. It has been argued that taxes should be subtracted from income, as this money cannot be spent to meet basic needs, and that in-kind or near-money government benefits should be added, such as food stamps, housing and child care subsidies, and the EITC. The omission of these items from the official definition of income has become increasingly serious in recent years because government transfers are now concentrated in benefits that are not considered part of families’ gross cash income. The unfortunate result is that the current official poverty measure no longer accurately captures either people’s perceptions of poverty or the effect of various policies on people’s resources.

#### *The 1995 National Research Council Report on Poverty and Subsequent Research*

In response to the increasingly apparent weaknesses of the official poverty measure, the U.S. Congress appropriated funds for an independent scientific study of the official poverty measure, which led to the 1995 National Research Council (NRC) report, *Measuring Poverty: A New Approach*. The report recommended that a new poverty threshold be calculated by determining, for a reference family of two adults and two children, a dollar amount for food, clothing, shelter, and utilities, and then increasing that dollar amount by a modest percentage to allow for other needs (such as household supplies, personal care, and non-work-related transportation). The dollar amount would be scaled down from the median spending for those four basic items using data gathered in the Consumer Expenditure Survey (CE). This threshold would then be adjusted for families of different sizes and types by using an equivalence scale. Finally, unlike in the official U.S. poverty measure, the thresholds would be further adjusted for housing cost variations across regions and metropolitan areas of different population sizes.

<sup>1</sup>Much of the analysis in this testimony is drawn from a recent paper I wrote (Iceland 2005) that provides greater detail about poverty measurement issues and challenges.

Family resources in the NRC report are defined as the value of cash income from all sources plus the value of near-money benefits that are available to buy goods and services covered by the new thresholds, minus some basic expenses. Cash income sources are the same as those in the current official Census Bureau poverty measure. The income definition also includes near-money income: food stamps, housing subsidies, school breakfast and lunch subsidies, home energy assistance, assistance received under the Woman, Infants, and Children nutritional supplement (WIC) program (if the data are available), the EITC, and realized capital gains (or losses). Basic expenses to be subtracted include taxes, child care and other work-related expenses of working parents, medical out-of-pocket costs, and, if the data are available, child support payments made to another household. Taxes represent a nondiscretionary expense in that people cannot spend this money. Child care and other work-related expenses (such as commuting expenses) are also subtracted because, the panel argued, these costs are often incurred if parents are to work and earn labor market income.

The release of the NRC report in 1995 was followed by considerable research activity. The Census Bureau released a few subsequent reports that were devoted to experimental poverty measures (for example, Short et al. 1999; Short 2001). Over 50 research papers on experimental poverty measures have been written by researchers in various other government agencies, including the Bureau of Labor Statistics, the Department of Health and Human Services, and the Office of Management and Budget, to name a few, and by researchers at think tanks and various universities.<sup>2</sup> This research has helped identify strengths and weaknesses in the NRC recommendations. The National Academy of Sciences convened another workshop in 2004 to review the elements in the measure. On the whole, workshop participants agreed that the measure represented a significant improvement over the current official poverty measure; participants also made additional recommendations on some of the elements (National Research Council 2005).

#### **Strengths and Weaknesses of Absolute and Relative Poverty Measures**

Technical issues aside, there are conceptual advantages and disadvantages of alternative measures. The main advantage of absolute measures is that they are conceptually easy to understand and intuitively appealing. For example, if there is starvation and hunger, then there is clearly poverty—regardless of how high or low the overall standards of living in a society. The main theoretical criticism of absolute measures is that what people judge to be poor varies across both time and place. Standards of living in the developed and developing world clearly differ. Even within the U.S., as standards of living change, so have people's perceptions of what poverty means. Poverty lines and minimum subsistence budgets devised by researchers and social workers in the early 1900s were, in inflation-adjusted dollars, generally between 43 and 54 percent of the subsequent U.S. official poverty thresholds devised in 1963 (Fisher 1995). Economists describe this phenomenon as the “income elasticity of the poverty line”—the tendency of successive poverty lines to rise in real terms as the real income of the general population rises. Some people therefore argue that poverty is by its nature relative; people are poor when others think of them as poor.

Relative poverty measures address this weakness of absolute measures. Relative measures are explicitly based on the notion that poverty is relative to a society's existing standards of living. Implicit is that people are social beings who operate within relationships. People whose resources are significantly below the resources of others, even if they are physically able to survive, may not be able to participate adequately in social organizations and relationships. Adam Smith (1776) argued that to be poor was to lack what was needed to be a “creditable” member of society. He noted that in his day (the 18<sup>th</sup> century), a man needed a linen shirt if he was to appear in public “without shame.”

The most common method of measuring relative poverty is setting a threshold at a percentage of the national median household income. For example, analysts comparing poverty across countries in the European Community and the United Kingdom have often specified a poverty threshold at half the median income. Other relative thresholds, such as 40 percent of the median or 60 percent of the median household income (the latter is the official European Union poverty threshold), have also been used by researchers.

Relative measures also have advantages and disadvantages. On the positive side, advocates argue that the relative notion underlying these measures fits with both the historical record and changing views of poverty. Second, sometimes real needs

<sup>2</sup> Many of these papers are available on a Census Bureau website. See <http://www.census.gov/hhes/www/povmeas/nas.html>.

do indeed rise in richer countries. For example, while a car may be a luxury in some countries, in a society in which most families own cars, and where public transportation services are also poor, a car may often be needed to find a job and commute to work. Moreover, car owners in many places may be required to purchase car insurance, thus leaving families with less disposable income to meet other needs. Such requirements would be considered unreasonable in societies with lower standards of living.

On the other hand, some have asserted that relative measures conceptually unappealing, believing that “poverty” should refer to a truly subsistence standard. Relative measures can also, at times, behave in deceptive ways over the short run, particularly during periods of economic growth and recession. In particular, relative thresholds sometimes decline in bad times as median incomes fall. This could result in a decline in measured poverty rates, even though low-income people are faring (and feel themselves faring) worse than before.

Nevertheless, it is no accident that relative measures have become more common in rich industrialized countries and in analyses that involve cross-national comparisons in the developed world. The Organization for Economic Cooperation and Development (OECD) argues, for example, that absolute poverty lines have little meaning in such societies, and that poverty should be thought in more in terms of exclusion from standards of living generally available to others in the same society (OECD 2001). Measuring poverty in terms of absolute need—such as starvation—has simply become less meaningful because of how infrequently it occurs in these contexts.

### **Empirical Analysis**

The analysis below has three parts. I begin by examining how different poverty thresholds behave over time, including how they compare to people’s subjective notions of poverty. This is followed by a look at poverty rates derived from different measures. Finally, I compare official and NAS poverty rates across demographic groups to show what types of differences they produce.

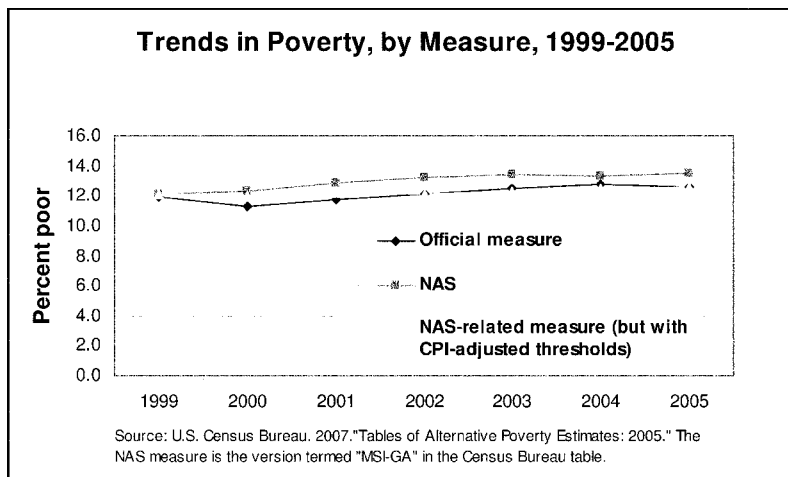
#### *Trends in Thresholds*

As described earlier, research has shown that people’s opinions of what constitutes poverty increase as standards of living increase. A pair of studies by Denton Vaughan (1993, 2004) examined subjective, absolute, and relative poverty thresholds in the United States. The subjective poverty thresholds were essentially based on the following question last asked by the Gallup Organization in 1993:

People who have income below a certain level can be considered poor. That level is called the “poverty line.” What amount of weekly income would you use as a poverty line for a family of four (husband, wife and two children) in this community?

Vaughan estimated a subjective poverty standard back to 1946 based on a few assumptions (see his papers for details). He found that over the period, the subjective poverty threshold averaged about 52 percent of the median four-person family income net of taxes—a figure that closely approximates the level at which a typical relative poverty threshold is operationalized (see Figure 1). Despite some fluctuations, the subjective poverty needs standard declined from about 56 percent of the median income in the 1947–1950 period to about 49 percent in the 1984–1989 period, perhaps indicating that subjective poverty thresholds may rise modestly less quickly than relative poverty thresholds (Vaughan, 2004: 16).

Nevertheless, it is clear that relative thresholds perform better when evaluated vis-à-vis subjective thresholds than the official U.S. poverty threshold, which is an absolute threshold. As such, this threshold remained constant over time in real dollars. Vaughan’s (2004) study indicates that while the official poverty threshold projected back to 1947 was higher than the subjective poverty threshold in that year (35 percent greater), these thresholds were about equal at the time that Mollie Orshansky devised the official poverty thresholds in 1963 and 1964, and by 1989 the official poverty threshold was in fact only 81 percent of the subjective one. This indicates that the official poverty threshold has indeed become less socially meaningful since the 1960s, and considerably less meaningful over time than the relative threshold.

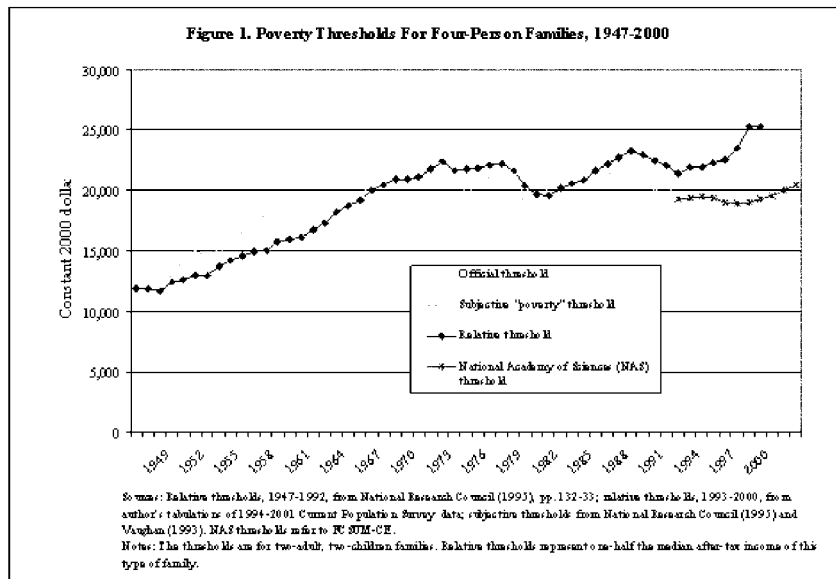


There is no poverty threshold time series based on recommendations by the National Academy of Sciences that spans enough time to appropriately evaluate how they compare with subjective notions of poverty, since no version of NAS thresholds exist before 1989. The version of the NAS poverty threshold that includes out-of-pocket medical expenses (shown in figure 1) is a little higher than the official threshold, though the two thresholds fairly closely tracked each other for most of the 1990s. However, the NAS threshold rose modestly more quickly after 1997, when real spending on a basic bundle of items rose faster than inflation, largely due to relative increases in housing and medical costs (see also U.S. Census Bureau 2007a).

#### *Poverty Estimates Using Alternative Measures*

Figure 2 shows poverty rates using different poverty measures in 2005 (except for the relative measure, which refers to poverty in 2000). In addition to the official poverty measure, the figure includes two NAS-based measures. One has thresholds that have been updated only for inflation since 1999, while the other has thresholds that have been updated for changes in real spending on basic goods using Consumer Expenditure Survey data, as recommended by the NAS panel (U.S. Census Bureau 2007a).<sup>3</sup> The "disposable income" measure is a new one included in a recent Census Bureau Report on income and poverty (U.S. Census Bureau 2007b). This measure uses the same reference family threshold as is used in the official poverty measure (though it uses a different method for adjusting this threshold for families of different sizes and composition). In addition to money income, this measure adds capital gains, imputed rental income, and the value of noncash transfers such as food stamps, housing subsidies, and free lunches. It subtracts work expenses (though not childcare), federal and state income taxes, payroll taxes, and property taxes for owner-occupied homes. The relative poverty measure comes from Luxembourg Income Study (2007), and it uses a threshold equal to half the median household income in the U.S.

<sup>3</sup>The inflation-adjusted measure is termed "MSI-GA-CPI" while the other is "MS-GA-CE" in the Census Bureau tables.

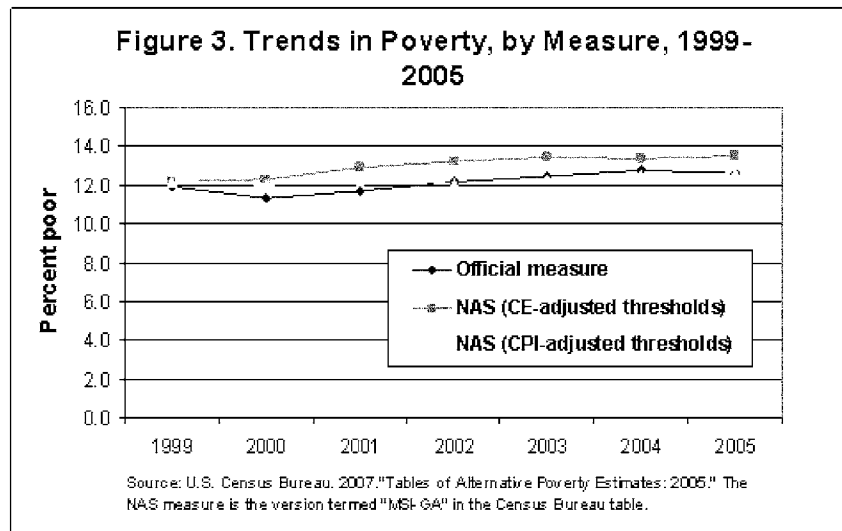
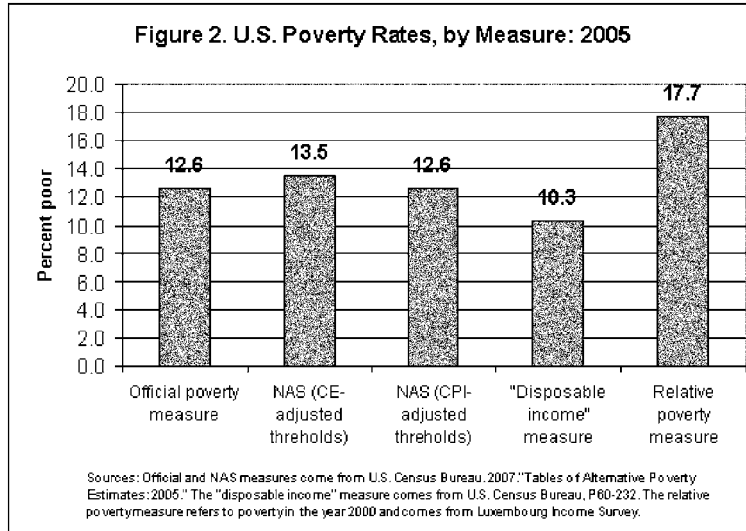


The poverty rate is highest when using the relative poverty measure (17.6 percent), whose thresholds are higher than those used in the other measures. The “disposable income” measure shows the lowest poverty rate (10.3 percent) because it has a more refined measure of family resources that includes in-kind transfers. However, this measure still uses the outdated official thresholds (except for including a more refined equivalence scale).

The figure also shows that the official poverty and the inflation-adjusted NAS poverty rates are the same, at 12.6 percent each. Note that the NAS measure with CE-adjusted thresholds is a little higher at 13.5 percent, mainly because spending on basic goods has risen in real dollars since 1999. The early 2000s witnessed a rise in housing prices in many areas of the country. Figure 3 illustrates these poverty rate trends in more detail.

Table 1 shows how poverty rates vary across demographic groups when using the official poverty measure versus the NAS measure with inflation-adjusted thresholds.<sup>4</sup> While the overall poverty rates are the same, we see that NAS poverty rates are higher for people in married-couple families and the elderly. These differences have been noted by previous research (Short et al., 1999). Married-couple families are less likely to receive government transfers and often incur higher work-related expenses. The elderly often have higher out-of-pocket medical expenses. African Americans and people in female-householder families tend to have lower poverty rates when using the NAS measure, in part due to greater receipt of non-cash government transfers.

<sup>4</sup>I would have preferred to use the NAS measure with CE-adjusted thresholds rather than inflation-adjusted thresholds, but there were no demographic cross-tabulations with the former available on the Census Bureau website.



### Conclusion

Poverty measurement research efforts in the United States are approaching a crossroads. Most people recognize the significant faults of the current official poverty measure, but no new measure has yet taken its place. There has been increasing use of relative measures among academic researchers, as is already common in Europe, but not really among those outside the academy. Some poverty researchers have also shown interest in the quasi-relative measure recommended by the National Academy of Sciences panel. A key theoretical issue is whether "poverty" should refer to a subsistence standard, such as severe malnutrition or starvation (a notion associated with absolute poverty measures), or to economic marginalization (one associated with relative measures), or to something in between.

I would argue that the NAS panel-recommended poverty measure addresses many weaknesses of both purely absolute and purely relative measures. On the positive side, the NAS panel-recommended measure is technically a more refined measure

than the current official poverty measure in both the construction of the thresholds and the definition of income used. It is designed to gauge the impact of government programs on poverty, given that both cash and non-cash government benefits are taken into account in the measure of family income.

Conceptually, the NAS measure has the advantage of increasing, in real terms, as spending on basic items increase, as to reflect changes in real standards of living. Yet, it is not responsive to changes in spending patterns on other, more discretionary items—such as luxury goods—that may occur as median incomes rise. I believe that this is a desirable property of a *poverty* measure. Relative poverty thresholds, in contrast, are simply responsive to changes in median income; as such they less directly measure the ability to attain basic goods or capabilities. Thus, while all of these measures tell us something useful about people's economic well-being, the NAS poverty measure is, in my view, the single most informative poverty measure among them.

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Chairman MCDERMOTT. Thank you, very much.

Nancy Cauthen is a Ph.D. from Columbia University from the National Center for Children in Poverty, Mailman School of Public Health.

**STATEMENT OF NANCY K. CAUTHEN, DEPUTY DIRECTOR, NATIONAL CENTER FOR CHILDREN IN POVERTY, MAILMAN SCHOOL OF PUBLIC HEALTH, COLUMBIA UNIVERSITY**

Dr. CAUTHEN. Good morning, and thank you Chairman McDermott and members of the Subcommittee for this opportunity to testify.

I want to make three points this morning. First, I want to emphasize why the subject of this hearing—that is, how we measure poverty in the United States—is so important. Child and family poverty exact a high toll on our society. To reduce both the human and societal costs of poverty, we need a better measure than we currently have to identify who needs assistance and what kind of assistance.

An extensive body of research has definitively linked economic hardship to a range of adverse educational, health, social, and emotional outcomes for children that place constraints on their human potential and limit their future productivity. At the same time, there is compelling evidence that we can positively affect the developmental trajectories of children affected by poverty, if we invest adequate resources and proven strategies and especially if we intervene early.

If, as a nation, we decide to make a commitment to reduce child poverty, which to date we have not done, it is imperative that we have the right measures to identify it and quantify its scope. My second point is that, as the two previous witnesses have argued, that the National Academy of Science's approach for updating the poverty measure would be a welcome improvement over our current measure. But we need to be clear that the NAS alternative still represents a minimal level of subsistence, not a decent, modest, standard of living.

The NAS recommendations produce poverty thresholds that are not substantially higher than the current thresholds as we just saw on the charts. We are still talking about a poverty level of roughly \$20,000 to \$23,000 a year for a family of four, whether that family lives in New York City or rural Talbot County, Georgia, for example—localities which obviously have dramatically different living costs. Research consistently shows that families with incomes of up to twice the official poverty level experience many of the same material hardships as families who are officially poor. These hardships include things like being evicted from one's apartment, having utilities shut off, going without needed medical or dental care, or having unstable or unsafe childcare.

Emerging findings from research on child development suggest that these types of material hardships are key to understanding why poverty harms children, and I would be happy to say more about that later.

My final point is that there has been a considerable amount of research, especially over the last decade, about what it really takes for families to make ends meet. Many of us have adopted 200 percent of the Federal poverty level as a proxy for low income, that



is, a level below which families will have difficulty meeting basic needs and will face material hardship. But of course this level varies by region, State and locality. Family budget research conducted by my organization and others suggests that families need an income of anywhere between one and a half to over three times the current poverty level to make ends meet, and I have provided a number of specific examples in my written testimony.

**Table 1. Poverty Rates for Individuals by Demographic Characteristics and Measure**

|                                       | Official poverty measure | NAS measure (CPI-adjusted thresholds) <sup>1</sup> |
|---------------------------------------|--------------------------|--|
| <b>All people</b>                     | 12.6                     | 12.6   |
| People in married-couple families     | 5.9                      | 6.3  |
| People in female householder families | 31.1                     | 27.0   |
| People in male householder families   | 13.4                     | 15.1   |
| <b>Age</b>                            |                          |  |
| Under 18 years                        | 17.6                     | 13.9   |
| 18 to 64 years                        | 11.1                     | 11.4   |
| 65 years and over                     | 10.2                     | 16.5   |
| <b>Race and Hispanic Origin</b>       |                          |  |
| White                                 | 10.6                     | 11.0   |
| Non-Hispanic White                    | 8.3                      | 9.0  |
| Black                                 | 24.9                     | 21.9   |
| Asian                                 | 11.2                     | 11.9   |
| Hispanic (any race)                   | 21.8                     | 21.0   |
| <b>Region</b>                         |                          |  |
| Northeast                             | 11.3                     | 10.6   |
| Midwest                               | 11.4                     | 10.8   |
| South                                 | 14.0                     | 14.4   |
| West                                  | 12.6                     | 13.0   |

Source: U.S. Census Bureau, 2007, "Tables of Alternative Poverty Estimates: 2005."

1. The NAS measure is the version termed "MSHGA" in the Census Bureau table and the threshold were adjusted using the CPI-U.

But even research on family budgets makes conservative assumptions about expenses. This is still an approach that focuses on day-to-day needs. The work on basic budgets includes housing, food, childcare, health insurance, transportation, payroll and income taxes, and a small amount for other necessities. But none of this includes resources for things like household furnishing, a rainy day fund, disability or life insurance, or any of the kinds of cushions that would help a family withstand a major medical crisis, a job loss or other financial setback.

Family budget approaches are helpful for understanding what it takes for a family to get by but not what it takes to get ahead.

In conclusion, I would like to suggest that the United States, as the wealthiest nation in the world, needs a range of measures to assess how children and families are doing that go beyond a minimal level of subsistence. Adopting the NAS recommendations for a revised poverty measure would be an important and highly worthwhile first step, but it is not enough.

Thank you.

[The prepared statement of Dr. Cauthen follows:]

**Prepared Statement of Nancy Cauthen, Ph.D., Deputy Director, National Center for Children in Poverty, Mailman School of Public Health, Columbia University**

Thank you, Chairman McDermott and members of the subcommittee for this opportunity to testify. I'd like to begin by thanking you for holding this hearing and addressing the important issue of how we measure poverty.

My name is Nancy Cauthen, and I am the Deputy Director of the National Center for Children in Poverty (NCCP). NCCP is a policy research organization at Columbia University's Mailman School of Public Health. Our mission is to promote the health, economic security, and well-being of America's most vulnerable children and families. NCCP uses research to identify problems and find solutions at the state and national levels.

My testimony will address the following points:

- Child and family poverty exact a high toll on our society, so it is critical that we measure it in a way that allows us to best identify who needs assistance and what kinds of assistance.
- Although the National Academy of Sciences 1995 recommendations and subsequent refinements for updating the official poverty measure offer the most promising approach, the thresholds would still be too low to identify all those who need help.
- To improve child and family well-being, we must address not only income poverty but also material hardship.
- Family budgeting approaches provide an alternative way to understand what it takes for families to meet their basic needs and to achieve a reasonable standard of living.

**What's at Stake: Why Poverty Matters**

There is now abundant evidence that not only does poverty create hardship and adversity for those who experience it, but poverty also exacts a high toll on our entire society. Testimony presented before the full Ways and Means Committee in January estimated that child poverty costs the United States \$500 billion per year, which is roughly equivalent to 4 percent of Gross Domestic Product. These costs are attributed to reductions in productivity and economic output, increases in crime, and increases in health expenditures (Holzer, Schanzenbach, Duncan, and Ludwig 2007). A report prepared by the General Accounting Office and presented at the same hearing also found that poverty has large negative economic and social impacts (Nilsen 2007).

These and many other studies point to the seriousness of child poverty as a long-standing, nationwide problem. Using our current poverty measure, in 2005, 13 million children—18 percent of children in the United States—were growing up in families with income below the federal poverty level, which in 2007 is \$17,170 for a family of three and \$20,650 for a family of four (Fass and Cauthen 2006).<sup>1</sup> But as I will argue, these figures significantly underestimate the numbers of children living in families who struggle to make ends meet. Considerable research indicates that it takes, on average, an income of twice the federal poverty level to meet basic needs. Using this definition of low income, 39 percent of children are living in families that are struggling financially.

<sup>1</sup> These figures refer to the federal poverty guidelines, which are used for administrative purposes, such as determining financial eligibility for benefit programs. For statistical purposes, researchers use a different—but quite similar—version of the federal poverty measure, the federal poverty thresholds, issued by the U.S. Census Bureau. Both the guidelines and the thresholds are commonly referred to as the federal poverty level (FPL).

*The Effects of Income Poverty on Children*

An extensive body of research literature has definitively linked economic hardship to a range of adverse educational, health, and social outcomes for children that limit their future productivity (for reviews of this literature, see Gershoff, Aber, and Raver 2003; Cauthen 2002). Poverty can impede children's cognitive development and their ability to learn. It can contribute to behavioral, social, and emotional problems. And poverty can contribute to poor health among children.

Research also indicates that the strength of the effects of poverty on children's health and development depends in part on the timing, duration, and intensity of poverty in childhood. The risks posed by poverty appear to be greatest among children who experience poverty when they are young and among children who experience persistent and deep poverty. The negative effects of poverty on young children, troubling in their own right, are also cause for concern given that these effects are associated with difficulties later in life—teenage childbearing, dropping out of school, poor adolescent and adult health, and poor employment outcomes.

As discouraging as this research might be, there is compelling evidence that we can positively affect these trajectories by investing adequate resources in proven anti-poverty strategies. Research is clear that we must reach children in poor families when they are very young and simultaneously address the needs of their parents (Shonkoff and Phillips 2000).

A holistic approach to reducing child poverty requires increasing family incomes, improving parental employment outcomes, investing in high-quality early care and learning experiences, and strengthening families. I do not mean to downplay the enormity of the task (Haskins 2007)—it would require a huge financial commitment as well as tremendous political will. But the point is simply that it's possible—the evidence is clear that in the long term, sound investments in the healthy development of children can increase economic productivity and improve overall prosperity, while reducing inequality (Knitzer 2007).

*Increasing Family Income Improves Child Outcomes*

More than a decade of research shows that increasing the incomes of low-income families—net of other changes—can positively affect child development, especially for younger children (for a review, see Cauthen 2002). Experimental studies of welfare programs offer some of the strongest evidence to date about the importance of income. For example, welfare programs that increase family income through employment and earnings supplements have consistently shown improvements in school achievement among elementary school-age children; other studies have also shown links between increased income and improved school readiness in young children.

In contrast, welfare programs that increase levels of employment without increasing income have shown few consistent effects on children. Moreover, findings from welfare-to-work experiments show that when programs reduce income, children are sometimes adversely affected. Other studies have shown links between increased income and reductions in behavioral problems in low-income children and youth (Costello, Compton, Keeler, and Angold 2003). It is not just the amount of income that matters but also its predictability and stability over time; research has shown that unstable financial situations also can have serious consequences for children (Wagmiller, Lennon, Kuang, and Aber 2006).

Reducing the consequences of child poverty will require more than increasing family incomes. But too often, policy discussions about reducing child poverty focus only on the *symptoms* of poverty—low educational achievement, social and behavioral problems, and poor health. Yet poverty itself is the single biggest threat to healthy child development: improving child outcomes requires explicit attention to lifting families up economically.

**Determining the Best Way to Measure Poverty**

For quite some time, there has been a consensus among social scientists that the current poverty measure needs to be improved. The United States measures poverty by a standard developed more than 40 years ago, using data from the 1950s that indicated families spent about one-third of their income on food. The official poverty level was set by multiplying food costs by three. Since then, the figure has been updated annually for inflation but the methodology has otherwise remained unchanged. The federal poverty level is adjusted by family size but is the same across the continental U.S.

*The Current Measure*

The usefulness of the current measure has declined over time for two reasons (Cauthen and Fass 2007):

**1. The poverty thresholds—that is, the specific dollar amounts—are too low because they are based on outdated assumptions about family expenditures.**

Food now comprises about one-seventh of an average family's expenditures—not one-third as was assumed under the original poverty measure. At the same time, the costs of housing, child care, health care, and transportation have grown disproportionately. Thus, the poverty level no longer reflects the true cost of supporting a family at a minimally adequate level. In addition, the current poverty measure is a national standard that does not adjust for the substantial variation in the cost of living from state to state and among urban, suburban, and rural areas.

**2. The method used to determine whether a family is poor does not accurately count family resources, overestimating resources for some and underestimating them for others.**

When determining whether a family is poor, income sources counted include earnings, interest, dividends, Social Security, and cash assistance. But income is counted before subtracting payroll, income, and other taxes, overestimating how much families have to spend on basic needs. And the method understates the resources of families who receive some types of government assistance because the federal Earned Income Tax Credit is not counted nor are in-kind government benefits—such as food stamps and housing assistance—taken into account.

Thus, by not reflecting an accurate picture of family expenses and resources, one unfortunate consequence of the way we currently measure poverty is that the measure cannot be used to evaluate the effectiveness of the very programs designed to help alleviate poverty.

*The 1995 National Academy of Sciences Recommendations*

Social scientists have been debating the usefulness of the current poverty measure for quite some time. The most extensive effort to date to address the concerns about the measure began with the work of a distinguished panel of experts appointed by the National Academy of Sciences (NAS) at the behest of Congress. In the decade since the panel's report was released in 1995 (National Research Council 1995), social scientists at the U.S. Bureau of the Census and the Bureau of Labor Statistics, as well as at universities and research centers, have continued to build on the panel's work.

To address the primary concerns about the current poverty measure, the NAS panel recommended that:

**1. The poverty threshold comprise a budget for food, clothing, and shelter.**

The amounts budgeted would be based on expenditure data, and the figures would be updated annually. The shelter amount would include utilities, and the threshold would allow a small additional amount for other common needs (such as household supplies, personal care, and non-work-related transportation). The panel discussed whether the measure should be adjusted for regional differences in living costs. This point has generated considerable debate and contention—the concerns are both technical and political.

**2. The measure of resources include cash and near-cash disposable income that is available for basic needs that are common to all families.**

The resource measure would *exclude* certain expenses that are non-discretionary for the families that incur them (e.g., work-related expenses such as child care and out-of-pocket medical care expenses). But it would include in-kind benefits (e.g. food stamps, subsidized housing, school lunches, and home energy assistance). The measure is calculated after taxes, so payroll taxes would be excluded, but the Earned Income Tax Credit and other tax credits would be included in determining family resources.

Researchers do not agree on all the specific technical aspects of the NAS and subsequent recommendations. But there is almost universal agreement among social scientists that the NAS recommendations would provide the nation with a far more useful poverty measure than the current one. And pragmatically, the NAS approach is viewed as the most viable option for creating a bipartisan political consensus around a new measure.

The NAS recommendations would undoubtedly be an important improvement over what we have. And they also provide a way to measure the impact of poverty reduction programs, most of which did not exist when the original measure was created.

*What Are We Measuring?*

But even if we reach a consensus on a revised poverty measure along the lines of the NAS recommendations—and I hope we do—we need to be clear about what we are measuring. Both the current measure and the NAS versions attempt to quantify a minimal level of subsistence below which we have agreed, as a society, that no individual or family should fall.

Any judgment about what constitutes a minimally acceptable level of subsistence is, of course, normative. Human beings can survive on a variety of income levels. In 2005, 8 percent of children in the U.S.—nearly 6 million children—were surviving despite living in households with incomes of less than half the poverty line, which was just under \$10,000 annually for a family of three. Yet, in the wake of Hurricane Katrina, many Americans seemed shocked to learn that we still have a sizable number of desperately poor people in our country.

In short, questions about how we define poverty require value judgments not only about how to define a minimal level of subsistence but whether that is in fact a decent and just way to define poverty in a wealthy society.

Implementing the NAS recommendations produces poverty thresholds that are not vastly different from the current ones, which means they do not reflect the substantial improvement in living standards that have occurred in the U.S. over the last 40-plus years. When the current poverty measure was developed, the threshold for a family of four equaled about 50 percent of the median income for a four-person family. But over time, that percentage has dropped dramatically. Today the poverty threshold for a four-person family represents only about 30 percent of the median income (Ziliak 2005).

The question becomes: for what purpose are we measuring poverty and what do we want to do with the information? One of the most compelling reasons to establish an agreed upon measure of poverty is to identify who in the population is in need of assistance—and what kind of assistance—and the scope of that need. To the degree that we want a poverty measure that can inform policy, especially with regard to improving the well-being of children and families, we may need different kinds of measures.

**The Difference Between Poverty and Material Hardship**

The current poverty line does not accurately predict the likelihood that a family will experience material hardship (Iceland and Bauman 2007). Examples of material hardships include being evicted, missing rent payments, having utilities shut off, going without needed medical or dental care, or having unstable child care. Research consistently shows that families with income of up to twice the official poverty level experience many of the same hardships as families who are officially poor—while families with income above twice the poverty line are substantially *less likely* to experience material hardships. Overall, about two thirds of families with income between 100 and 200 percent of the federal poverty level experience one or more material hardships such as not having enough food or having utilities turned off because of inability to pay bills (Boushey, Brocht, Gundersen, and Bernstein 2001; Amey 2000). Some hardships, such as difficulties paying for child care and health care, are common among middle-income families as well.

A critical finding emerging from the child development literature is that material hardships play an important role in determining whether or not children will be negatively affected by growing up in a low-income family. Not surprisingly, facing such hardships is associated with diminished parental investments in children and increased parental stress, which in turn negatively affect children (Gershoff, Aber, Raven, and Lennon 2007). It is now clear that to reduce the effects of poverty on children, we need to increase family incomes *and* reduce the experience of material hardship (Gershoff 2003).

Any new poverty thresholds based on the NAS recommendations would not be substantially higher than current thresholds. Alternative poverty levels calculated by the Census Bureau that incorporate many of the NAS suggestions indicate that the threshold for a two-parent family with two children would increase by about \$3,000 (Bernstein 2007). Since research indicates that families with incomes of up to twice the current poverty thresholds face high levels of material hardship, it seems likely that even with an NAS-based alternative, there will continue to be many families who are deemed non-poor by the new measure while not being able to meet their basic needs.

**Measuring What It Takes to Make Ends Meet**

There has been a considerable amount of research over the last decade about what it takes to make ends meet. One such effort was spearheaded by Diana Pearce, for Wider Opportunities for Women, who developed a methodology for creating “Self-

Sufficiency Standards” (Pearce 2001, 2006). The standards quantify how much money a family needs to cover basic expenses, such as housing, food, child care, transportation, health insurance, and payroll and income taxes; a small amount is also allocated for other necessities (examples include clothing, diapers, household items, and school supplies). The standards vary by locality—to account for variations in the cost of living—and by family type (two-parent or single-parent and the number and ages of children). The budgets assume that the families receive no public benefits. Self-Sufficiency Standards have been developed for 36 states.

The Economic Policy Institute (EPI) undertook a similar effort and created “Basic Family Budgets” (Berstein, Brocht, and Spade-Aguilar 2000; Allegretto 2005). The methodology differs somewhat from that for the Self-Sufficiency Standards, but the concept is the same—what does it take for different types of families in different localities to cover the costs of basic living expenses?<sup>2</sup> EPI has calculated basic budgets for over 400 localities across the country. The organization characterizes Basic Family Budgets as providing “a realistic measure of the income required to have a safe and decent though basic standard of living.”

Building on this earlier work, NCCP has created “Basic Needs Budgets” for different family types in over 80 localities in 14 states plus the District of Columbia.<sup>3</sup> We developed these budgets in conjunction with a project, *Making “Work Supports” Work*, that analyzes the effects of federal and state work support programs—earned income tax credits, child care and housing assistance, and food stamps—on the ability of low-wage workers to make ends meet.

Despite some differences in methodology, all three of these efforts provide additional evidence for the finding that families on average need an income of twice the current poverty level to cover the costs of basic expenses. NCCP has found that, depending on locality, this figure ranges from about 150 to over 300 percent of poverty. For example, Table 1 shows that it takes an annual income of about \$30,000 for a single-parent family with two children to make ends meet in Atlanta, Georgia, but a similar family living in Rockville, Maryland would need over \$50,000.

FIGURE 1

Basic needs budgets for a single parent with two children in selected localities\*

|  | Atlanta, GA     | Peoria, IL      | Erie, PA        | Humboldt, CA    | Albany, NY      | Rockville, MD   | San Francisco, CA |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-------------------|
| Rent and Utilities                     | \$9,348         | \$7,248         | \$7,128         | \$8,700         | \$9,024         | \$15,432        | \$18,612          |
| Food                                   | \$5,402         | \$5,402         | \$5,402         | \$5,402         | \$5,402         | \$5,402         | \$5,402           |
| Child Care                             | \$7,000         | \$9,352         | \$12,688        | \$12,153        | \$16,116        | \$11,868        | \$16,804          |
| Health Insurance                       | \$2,250         | \$2,212         | \$1,656         | \$2,430         | \$1,812         | \$2,583         | \$2,430           |
| Transportation                         | \$630           | \$3,440         | \$2,553         | \$4,493         | \$432           | \$2,472         | \$540             |
| Other Necessities                      | \$4,517         | \$3,357         | \$3,004         | \$3,807         | \$3,512         | \$5,405         | \$6,484           |
| Payroll and Income Taxes               | \$1,253         | \$1,137         | \$3,095         | \$2,459         | \$4,269         | \$8,084         | \$7,433           |
| <b>TOTAL</b>                           | <b>\$30,421</b> | <b>\$31,119</b> | <b>\$35,516</b> | <b>\$39,443</b> | <b>\$40,569</b> | <b>\$51,246</b> | <b>\$57,704</b>   |
| <b>% of 2007 Federal Poverty Level</b> | <b>177%</b>     | <b>181%</b>     | <b>207%</b>     | <b>230%</b>     | <b>238%</b>     | <b>298%</b>     | <b>336%</b>       |

\* Assumes one-parent family with one preschool-aged child and one school-aged child.

Source: NCCP's Basic Budget Calculator (soon to be available online at [www.nccp.org](http://www.nccp.org)). Results are based on the following assumptions: children are in center-based care settings while their parent works (the older child is in after-school care), family members have access to employer-based health insurance when not enrolled in public coverage; in Albany, Atlanta, and San Francisco, family relies on public transportation; in all other locations, costs reflect private transportation.

NCCP's Basic Needs Budgets, as well as the Self-Sufficiency Standards and EPI's Basic Family Budgets, include only the most basic daily living expenses and are based on modest assumptions about costs. For example, the budgets in Table 1 assume that family members have access to employer-sponsored health coverage when not covered by public insurance, even though the majority of low-wage workers do not have access to employer coverage. NCCP's Basic Needs Budgets do not include the cost of out-of-pocket medical expenses for copayments and deductibles, which can be quite costly, particularly for families with extensive health care needs. The budgets do not include money to purchase life or disability insurance or to create a rainy-day fund that would help a family withstand a job loss or other financial crisis. Nor do they allow for investments in a family's future financial success, such as savings to buy a home or for a child's education. In short, these budgets indicate what it takes for a family to cover their most basic living expenses—enough to get by but not enough to get ahead.

<sup>2</sup> Basic Family Budgets vary based on the number of children in a family but not their ages.

<sup>3</sup> For a detailed description of the methodology used to create NCCP's Basic Needs Budgets, see the *User Guide* for the Family Resource Simulator and consult the section on “Calculating Family Expenses.”

### Implications

These various measures—poverty measures, measures of material hardship, basic budgets—are not alternative ways of looking at the same thing, but rather they provide mechanisms for capturing and quantifying different phenomenon, which may require different (if overlapping) policy responses. Given this, what are the implications of adopting a new poverty measure along the lines of the NAS recommendations?

First, we would need to acknowledge that the official poverty level in the United States would remain a measure of deprivation and hardship rather than a measure of a decent, if modest, standard of living. Such a measure would still—if more accurately—identify only the most needy. Many families above this level still need assistance.

Second, we would need to think through the implications for programs that currently use the poverty level (or a percent of the poverty level) to determine eligibility. One possibility is to structure our assistance programs in ways that reflect the fact that working families with incomes above the poverty level need assistance with basic needs. The provision of public health insurance is one such model to build on—for example, providing free health insurance to families below (or near) the poverty line, and subsidized health insurance to somewhat higher income families, with premiums and copayments that gradually rise with family income. Similarly, a child care program informed by this understanding might provide free or very low-cost care to families living below the poverty line and reduced-cost child care to those above poverty but below a basic budget level (with the government subsidy decreasing as income increases). Cash assistance programs, on the other hand, would remain targeted at officially poor families, who have very low (or no) earnings (most state eligibility limits for cash assistance are currently well below the poverty level).

Third, I would hope that adopting the NAS approach for measuring income poverty would be accompanied by government efforts to also measure hardship, asset poverty, and other measures that inform us about how families are doing. Too many of our current policies are “too little, too late.” We typically wait until children and families are in deep trouble before we assist them, rather than investing heavily in prevention—we should help all families succeed instead of trying to patch them up once they have fallen. But we will need better measures—and concepts broader than poverty—to do so.

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Chairman MCDERMOTT. Thank you very much for your testimony.

Douglas Besharov is the Joseph and Violet Jacobs Scholar in Social Welfare Studies at the American Enterprise Institute.

Mr. Besharov?

**STATEMENT OF DOUGLAS J. BESHAROV, JOSEPH AND VIOLET JACOBS SCHOLAR, SOCIAL WELFARE STUDIES AT THE AMERICAN ENTERPRISE INSTITUTE**

Mr. BESHAROV. Chairman McDermott, Mr. Weller, and other Members of the Committee, it is a pleasure to be here.

My message, reluctantly, is to tell you why you should not change the official measure, and in fact why you cannot do it. I come to this conclusion after having gone through a twelve-month process of exploring all sorts of options with a blue ribbon group, government officials and outside experts.

In my written testimony, I go through the flaws of the current official measure, about which you have heard a great deal. You have mentioned them as well: it does a poor job accounting for inflation; does not count market income very well; and it does not



take wealth into consideration. (That \$750,000 townhouse doesn't even fit in the measure.) It doesn't subtract taxes. It doesn't account for changing household composition or changing consumption patterns which you also mentioned, Mr. Chairman. It doesn't deal with growing national affluence. It doesn't even try to deal with geographic differences in expenditures and costs.

Finally, and most importantly, it doesn't give credit for our large, maybe insufficient, efforts to alleviate poverty. First, I think you should not change the official poverty line. My testimony opens with Ronald Reagan's famous quip, "We declared war on poverty and poverty won." That's only possible because the current measure doesn't count all the things we do for low-income America.

Our committee examined two papers that were quite decisive in our thinking. One was by Christopher Jencks from Harvard University. His work, like that of a number of other specialists, found that the material condition of the poor has improved tremendously over the last 30 years.

We have not talked about how people are actually doing, but that's tremendously important. Another paper, which is from the Democrats on the Joint Economic Committee of 2 years ago, analyzes the kinds of changes to the poverty measure that many people have proposed, which suggests that progress and poverty reduction over the past two decades is much greater than the official poverty measure would indicate. Anti-poverty programs like the EITC, combined with changing family formation patterns, rising teen birthrates, and increases in cohabitation, resulted in significant decreases in poverty.

My point is not that we shouldn't do everything else that has been suggested, but it is essential, as a matter of policy, to be able to understand and accept the credit that the tens of billions of dollars of Federal aid now make for low-income people; the analysis from the Joint Economic Committee and others—on the left and the right—is that we ought to give credit to past efforts, and raising the thresholds without doing anything else negates that possibility.

That is why I think you shouldn't change the official measure. One quick mention about relative measures of poverty; Western Europe is now in the throes of reconsidering relative measures, because as an economy gets richer, and when income dispersion increases as it did in Ireland and is now happening in England and in Germany, poverty rises even though the incomes of people at the bottom are also increasing. I would say this is why there should be many measures. You can have a relative measure but you have to couple it with an absolute measure.

You can potentially have a measure about economic marginalization. You just cannot use it as the measure for determining eligibility for food stamps, because I think that we are talking about the true economic margin and marginalization at \$40,000 a year of income. I wouldn't suggest food stamps for that family. Median family income is about \$49,000, so this family is pretty close to the median.

Before I run out of time, allow me to suggest why you cannot, in my opinion, change the official measure. I say this with all due respect, we thought this through a lot, because we were eager to

have a success here. First, technically, there is absolutely no agreement about how to correct or geographic differences in the cost of living. Just to give you an example, the one attempt that was made by the Census Bureau shows that the poverty rate in California would go from 13.2 percent to 17.8 percent.

There is a vast argument about how to value housing. There also are large conceptual problems within the NAS approach. Some people think that subtracting the cost of transportation from someone's income who lives in West Virginia, and commutes to Washington so that that family can live in a bigger home than those of us closer to the city is not a way to measure poverty. That's also not involved in the Federal poverty measure. People want to account for the cost of child care, but rarely want to count the \$24 billion we spend a year on child care subsidies.

I mention these things, not because I think there is a solution, but because I think there is no solution to the technical and conceptual problems of changing the poverty measure in a way that it can be used for setting eligibility for programs, and that's the key point I want to make here.

Today's debate in the House is about multiples of the poverty line, not because Congress thinks that the poverty line itself is magical, but because the Congress, in its political wisdom, is finding a more absolute number within that.

I have clearly run out of time here. I would be delighted to answer any questions.

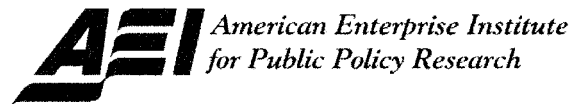
[The prepared statement of Mr. Besharov follows:]

**Basic needs budgets for a single parent with two children in selected localities\***

|  | Atlanta, GA     | Peoria, IL      | Erie, PA        | Humboldt, CA    | Albany, NY      | Rockville, MD   | San Francisco, CA |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-------------------|
| Rent and Utilities                     | \$9,349         | \$7,249         | \$7,129         | \$9,700         | \$9,024         | \$15,432        | \$18,612          |
| Food                                   | \$5,402         | \$5,402         | \$5,402         | \$5,402         | \$5,402         | \$5,402         | \$5,402           |
| Child Care                             | \$7,020         | \$8,362         | \$12,688        | \$12,153        | \$16,116        | \$11,868        | \$16,804          |
| Health Insurance                       | \$2,250         | \$2,212         | \$1,856         | \$2,430         | \$1,812         | \$2,583         | \$2,430           |
| Transportation                         | \$630           | \$3,440         | \$2,553         | \$4,493         | \$432           | \$2,472         | \$540             |
| Other Necessities                      | \$4,517         | \$3,367         | \$3,004         | \$3,807         | \$3,512         | \$5,405         | \$6,484           |
| Payload and Income Taxes               | \$1,253         | \$1,137         | \$3,085         | \$2,459         | \$4,263         | \$8,084         | \$7,433           |
| <b>TOTAL</b>                           | <b>\$30,421</b> | <b>\$31,149</b> | <b>\$35,516</b> | <b>\$39,443</b> | <b>\$40,569</b> | <b>\$51,246</b> | <b>\$57,701</b>   |
| <b>% of 2007 Federal Poverty Level</b> | 177%            | 181%            | 207%            | 230%            | 236%            | 298%            | 336%              |

\* Assumes one-parent family with one preschool-aged child and one school-aged child

Source: NCCF's Basic Budget Calculator (soon to be available online at [www.nccf.org](http://www.nccf.org)). Results are based on the following assumptions: children are in center-based care settings; while their parent works (the older child is in after-school care); family members have access to employer-based health insurance; when not enrolled in public coverage; in Albany, Atlanta, and San Francisco, family relies on public transportation; in all other locations, costs reflect private transportation.



**Douglas J. Besharov\***

**Testimony before the  
Subcommittee on Income Security and Family Support**

**Committee on Ways and Means**

**“Measuring Poverty in America”**

**August 1, 2007**

Chairman McDermott, members of the subcommittee, thank you for inviting me to testify on this important topic.

“We declared war on poverty, and poverty won,” famously quipped Ronald Reagan. That was certainly the impression most Americans got from the media images of the flood-stranded poor in New Orleans. And that is surely the message from the continuing high rate of poverty reported by the federal government’s official poverty measure. But poverty, or at least material deprivation, has declined sharply over the past forty years and that, in turn, should give us confidence that more progress is possible.

Each year, the Census Bureau reports on the nation’s poverty rate, based on the number of people with incomes below the official poverty line, adjusted annually for inflation. In 2005, the poverty line, which varies by family size, was \$15,577 for a family of three, and \$19,971 for

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a family of four.<sup>1</sup> By this measure, in 2005, about 12.6 percent of the population, or about 37 million people, were reported as poor,<sup>2</sup> including 17.6 percent of children and 10.1 percent of the elderly.<sup>3</sup> That's essentially the same as the 1968 rate of 12.8 percent<sup>4</sup>—which is a big reason why people think so little progress has been made against poverty.<sup>5</sup> (Little noted, however, is that the poverty rates for the elderly declined considerably, from 25 percent in 1968.)<sup>6</sup>

Many on the left as well as the right believe that there has been “much greater progress in poverty reduction over the last two decades than the official poverty measure would indicate,”<sup>7</sup> in the words of the Democrats on the Congressional Joint Economic Committee.

The results presented in this paper suggest much greater progress in poverty reduction over the last two decades than the official poverty measure would indicate. Antipoverty programs such as the Earned Income Tax Credit, combined with changing family formation patterns, including declining teen birth rates and increases in cohabitation, resulted in significant decreases in poverty among all demographic groups. The level of poverty reduction was particularly dramatic during the decade of the 1990s.<sup>8</sup>

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<sup>1</sup>U.S. Census Bureau, “Income, Poverty, and Health Insurance Coverage in the United States: 2005,” *Current Population Reports*, Series P60-231 (Washington, DC: U.S. Government Printing Office, August 2006), p. 45, <http://www.census.gov/prod/2006pubs/p60-231.pdf> (accessed July 31, 2007).

<sup>2</sup>U.S. Census Bureau, “Income, Poverty, and Health Insurance Coverage in the United States: 2005,” *Current Population Reports*, Series P60-231 (Washington, DC: U.S. Government Printing Office, August 2006), p. 13, <http://www.census.gov/prod/2006pubs/p60-231.pdf> (accessed July 31, 2007).

<sup>3</sup>U.S. Census Bureau, “Income, Poverty, and Health Insurance Coverage in the United States: 2005,” *Current Population Reports*, Series P60-231 (Washington, DC: U.S. Government Printing Office, August 2006), p. 13, <http://www.census.gov/prod/2006pubs/p60-231.pdf> (accessed July 31, 2007).

<sup>4</sup>U.S. Census Bureau, “Income, Poverty, and Health Insurance Coverage in the United States: 2005,” *Current Population Reports*, Series P60-231 (Washington, DC: U.S. Government Printing Office, August 2006), p. 46, <http://www.census.gov/prod/2006pubs/p60-231.pdf> (accessed July 31, 2007).

<sup>5</sup>The major differences in the trends among particular demographic groups, such as the elderly (down) and children (up), are usually lost in discussions of the general poverty trend. We describe them below.

<sup>6</sup>U.S. Census Bureau, “Income, Poverty, and Health Insurance Coverage in the United States: 2005,” *Current Population Reports*, Series P60-231 (Washington, DC: U.S. Government Printing Office, August 2006), p. 52, <http://www.census.gov/prod/2006pubs/p60-231.pdf> (accessed July 31, 2007).

<sup>7</sup>Joint Economic Committee Democrats, “Reductions in Poverty Significantly Greater in the 1990s than Official Estimates Suggest,” Economic Policy brief, August 2004, <http://www.welfareacademy.org/pubs/poverty/Poverty10.pdf> (accessed May 9, 2006).

<sup>8</sup>Joint Economic Committee Democrats, “Reductions in Poverty Significantly Greater in the 1990s than Official Estimates Suggest,” Economic Policy brief, August 2004, <http://www.welfareacademy.org/pubs/poverty/Poverty10.pdf> (accessed May 9, 2006).

What's going on?

### Technical Flaws in the Official Poverty Measure

The poverty measure, however, has been widely criticized by analysts from the left and the right for under- or overstating poverty. Let me focus on its technical flaws because they palpable and are relatively objective—although correcting them raises what I consider to be unresolvable conceptual, technical, ideological, and financial challenges.

**The official poverty measure does a poor job accounting for inflation.** Each year since 1969, the poverty thresholds have been adjusted for inflation, so that they more accurately reflect the costs of the goods and services in the original 1963 thresholds. The measure used, called the “deflator,” is the Consumer Price Index (CPI).

However, it is widely accepted that the CPI overstated the rate of inflation in the late 1970s and early 1980s because it measured housing costs improperly. The Census Bureau *income series* has been adjusted to correct for this inaccuracy: the CPI-U-X1 for the period 1967 to 1977 and the CPI-U-RS for 1978 to the present.<sup>9</sup> But the corrected CPIs have not have been used to adjust the poverty measure or other formulas that affect the distribution of means-tested benefits largely because of the political disruption that could result.

In addition, the Bureau of Labor Statistics developed the chained CPI, an inflation adjustment that takes into account consumer behavior, which further adjusts overstated rates of inflation in the CPI, CPI-U-X1, and CPI-U-RS.

Using the CPI-U-RS to adjust the poverty thresholds for the period from 1978 to the present lowers the poverty rate by about 1.5 percentage points, using the CPI-U-X1 for the period from 1967 to 1977 lowers the percentage rate another about 0.8 percentage points, and using the chained CPI reduces it a further 0.4 percentage points.

The main objection to making these corrections is not based on a defense of past CPI adjustments but, instead, stems from the outcome: a lowering of a poverty line that many feel is already too low and, in any event, that should be raised to reflect higher levels of general affluence.

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<sup>9</sup>Kenneth J. Stewart and Stephen B. Reed, “Consumer Price Index research series using current methods, 1978–98,” CPI Research Series, *Monthly Labor Review*, June 1999, <http://www.bls.gov/opub/mlr/1999/06/art4full.pdf> (accessed May 10, 2006). The CPI-U-RS and the CPI-U-X1 are consumer price index series produced by the Bureau of Labor Statistics. The CPI-U-RS is the CPI research series using current methods, and incorporates most of the improvements made to CPI measurement since 1978. The CPI-U-X1 is an experimental consumer price index that uses the rental equivalence approach for estimating housing costs between 1967 and 1982. The CPI-U-RS, which begins in 1978, also incorporates the rental equivalence approach for housing, among other improvements. By combining the CPI-U-X1 for 1967 to 1977 and the CPI-U-RS from 1978 onward, it is possible to correct for the overstatement of inflation from 1967 to the present.

**The official poverty measure does a poor job counting market income.** The starting point for any analysis of poverty is, of course, the income individuals and families receive from the market.

Unfortunately, Census Bureau data substantially understate the cash income of Americans. Government estimates are that there was about \$804 billion of unreported personal income in 2001, including about \$747 billion of various forms of market income such as wages and salaries (\$158 billion), self-employment income (\$302 billion), interest and dividends (\$132 billion), Social Security (\$49 billion), and other retirement payments (\$106 billion).<sup>10</sup> Also unreported is about \$53 billion of government cash transfer payments from just three government programs (income maintenance/\$24 billion, workers' compensation/\$20 billion and unemployment compensation/\$10 billion—rounding).<sup>11</sup> Other income also is surely unreported.

Conservative estimates that adjust for the underreporting of various forms of market income (but not including means-tested government benefits) would lower the poverty rate by about 1.6 percentage points. (It is not clear whether this undercounting of income has worsened over time, so applying this figure to obtain a poverty rate trend has to be done with care.)

The official poverty measure, moreover, is based on the Census Bureau's definitions of cash income which do not include employer contributions to pensions and health insurance. Although there are no estimates for the effect of employer contributions to pensions on measured poverty, counting employer contributions to health insurance would lower measured poverty by about 0.7 percentage points.<sup>12</sup>

Ironically, while excluding these forms of private income, the official poverty measure does count *cash* welfare payments. (That proviso is important because, as discussed below, *noncash* benefits are not counted, although they are often much larger.) In the United States in

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<sup>10</sup>John Ruser, Adrienne Pilot, and Charles Nelson, "Alternative Measures of Household Income: BEA Personal Income, CPS Money Income, and Beyond," paper prepared for presentation to the Federal Economic Statistics Advisory Committee (FESAC) on December 14, 2004, <http://www.bea.gov/bea/about/fesac/AlternativemeasuresHHincomeFESAC121404.pdf> (accessed May 22, 2006). See also Daniel H. Weinberg, "Alternative Measures of Income Poverty and the Anti-poverty Effects of Taxes and Transfers," paper prepared for the University of Maryland-American Enterprise Institute seminar on Reconsidering the Federal Poverty Measure, May 10, 2005, pp. 12–13, [http://www.welfareacademy.org/pubs/poverty/Weinberg\\_Alt\\_Measures.pdf](http://www.welfareacademy.org/pubs/poverty/Weinberg_Alt_Measures.pdf) (accessed May 10, 2006).

<sup>11</sup>Another \$4 billion of unreported income is attributed to small amounts of "other" income, income amounts collected in the CPS but not accounted for in the administrative data, and a residual amount.

<sup>12</sup>U.S. Census Bureau, "Table 5: Percent of People in Poverty, by Definition of Income and Selected Characteristics: 2002 (Revised)," Poverty by Definition of Income (R&D), <http://www.census.gov/hhes/www/poverty/poverty02/r&dtable5.html> (accessed July 31, 2007).

2004, the average TANF benefit per year for a family was about \$3,030.<sup>13</sup> Removing cash welfare payments from income raises the poverty rate by about .8 percentage points.

**The official poverty measure ignores major forms of wealth.** The official poverty measure counts as income interest on money in the bank, for example, but not the wealth embedded in homes and the stock market. This ignores the roughly \$9 trillion<sup>14</sup> in home equity (that is, the home's current value minus the amount of money owed on the mortgage). If the equivalent amount of money were in the bank, it would be earning interest that could be used to pay household expenses, and so forth.

Imputing what economists call the service flow from home ownership would lower poverty by about 1.0 percentage points. This would mostly impact the elderly, and would lower their poverty rate by about 3 percentage points, from about 10.1 percent under the current measure to about 7.1 percent.

Of course, many people (especially the elderly) feel that they have no choice but to live in their highly appreciated homes, and that moving to another home would place them in a less desirable and perhaps equally expensive situation. But whether or not one counts home equity in a formal poverty measure, it should modify our view of the material needs of a third of the elderly who are now labeled poor.

**The official poverty measure does not subtract taxes.** The current poverty measure does not take taxes into account, largely because they did not affect the poor very much in the 1960s. Back then, a household at the median family income with four dependents paid less than 5 percent of its income in federal income taxes<sup>15</sup> and Social Security payroll taxes were only 7.25

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<sup>13</sup>U.S. Department of Health and Human Services. Administration for Children and Families. Office of Financial Services. *Combined Spending of Federal and States Funds Expended in FY2004 Through the Fourth Quarter*, [http://www.acf.hhs.gov/programs/ofs/data/2004/tableA\\_spending\\_2004.html](http://www.acf.hhs.gov/programs/ofs/data/2004/tableA_spending_2004.html) (accessed July 31, 2007) and U.S. Department of Health and Human Services. Administration for Children and Families. Office of Family Assistance. *TANF Total Number of Families: Fiscal and Calendar Year 2004*, [http://www.acf.hhs.gov/programs/ofa/caseload/2004/2004\\_family\\_tan.htm](http://www.acf.hhs.gov/programs/ofa/caseload/2004/2004_family_tan.htm) (accessed July 31, 2007).

<sup>14</sup>Joint Center for Housing Studies of Harvard University, "The Changing Structure of the Home Remodeling Industry: Improving America's Housing 2005," p. 8, <http://www.jchs.harvard.edu/publications/remodeling/remodeling2005.pdf> (accessed May 24, 2006).

<sup>15</sup>Eugene C. Steuerle, "The Tax Treatment of Households of Different Size," in Penner, Rudolph G., ed., *Taxing the Family* (Washington, DC: The American Enterprise Institute, 1983), p. 76.

percent (with the employee's direct share being only 3.63 percent).<sup>16</sup> (Even sales taxes were low compared to today).<sup>17</sup>

Now, however, taxes represent a major burden on low-income families and individuals, with, for example, Social Security/Medicare payroll taxes at 12.4 percent.<sup>18</sup> Counting federal income taxes (-0.2 percentage points), state income taxes (0.0 percentage points, Social Security/Medicare payroll taxes (1.0 percentage points), and property taxes (.6 percentage points) would raise measured poverty by 1.4 percentage points.<sup>19</sup> State and local sales taxes are not included in this discussion because their impact is tracked through the CPI.

**The official poverty measure does not account for changes in family/household structure.** The poverty rate is most often presented for either individuals or families (more accurately, close relatives living together). In the 1960s, that made sense. Now, however, many couples live together without getting married ("cohabitation") and large numbers of unrelated people live together to share household expenses ("coresidency").

This is probably a throwback to the time when nonfamily household members were usually boarders, and their contribution (in rent) was captured in the income to the householder. Now, however, cohabitation among couples (with or without children) is widespread, as are multi-adult shared households (common among young singles and also many immigrants).

Using the Census Bureau's definition of family, the income of grandparents living with a single mother is counted, but not her boyfriend's income (on average about \$22,700). Counting the boyfriend's income would lower poverty by about 0.5 percentage points.

The main argument against counting the income of nonfamily members is it is not clear how much of it goes toward supporting the household. The same is true, of course, for family members, but to nowhere near the same degree.

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<sup>16</sup>Urban Institute and Brookings Institution, "Historical Social Security Tax Rates," Tax Facts, A Project of the Tax Policy Center, [http://www.taxpolicycenter.org/taxfacts/payroll/rate\\_historical.cfm](http://www.taxpolicycenter.org/taxfacts/payroll/rate_historical.cfm) (accessed May 10, 2006).

<sup>17</sup>In 1979, for example, the average state sales tax was about 4 percent; today, it is about 5.4 percent. Kevin A. Hassett and Anne Moore, "How Do Tax Policies Affect Low Income Workers?" National Poverty Center, University of Michigan, NPC Working Paper #05-16, September 2005, p. 18, <http://www.npc.umich.edu/publications/workingpaper05/paper16/> (May 18, 2006).

<sup>18</sup>Urban Institute and Brookings Institution, "Historical Social Security Tax Rates," Tax Facts, A Project of the Tax Policy Center, [http://www.taxpolicycenter.org/taxfacts/payroll/rate\\_historical.cfm](http://www.taxpolicycenter.org/taxfacts/payroll/rate_historical.cfm) (accessed May 10, 2006). See also Amy O'Hara, "New Methods for Simulating CPS Taxes," U.S. Census Bureau, p. 3, <http://www.census.gov/hhes/www/income/oharataxmodel.pdf> (accessed June 1, 2006).

<sup>19</sup>U.S. Census Bureau, "Table 5: Percent of People in Poverty, by Definition of Income and Selected Characteristics: 2002 (Revised)," Poverty by Definition of Income (R&D), <http://www.census.gov/hhes/www/poverty/poverty02/r&dtable5.html> (accessed May 18, 2006).



**The official poverty measure does not account for *changing consumption patterns*.**

When the poverty measure was developed, food expenditures represented about one-third of after-tax income for the typical family, so the food-plan amount was multiplied by three to establish the poverty line. Since then, food expenditures have fallen to about one-seventh of total expenditures (and are apparently still declining).<sup>20</sup>

Furthermore, spending patterns in general have changed because the costs of various items have changed at different rates. For example, the poverty measure already implicitly includes medical out-of-pocket expenditures (“MOOP”), such as health insurance premiums, copayments to medical providers, and over-the-counter medications would raise poverty rates. But these expenditures have risen sharply since the 1960s, and some have suggested subtracting them from income, or adding them to the poverty thresholds, or some combination of the two. Depending upon the approach chosen, this would raise poverty by between 0.2 and 0.8 percentage points. (However, other analysts would argue against doing so on the ground that MOOP expenditures are an implicit element in the current measure.)<sup>21</sup>

**The official poverty measure does not account for *increases in the national affluence*.**

Many observers would like to see a relative measure that rises with general affluence. In fact, many would like to see the U.S. adopt the informal approach used in some western European countries that defines poverty as the bottom 40 percent of median family income.

To the extent that poverty should be a function of society’s wealth/affluence, they have a point: In the 1960s, the poverty line was 45 percent of median family income for a family of four, now it is only 29 percent. Here are the figures over time:

- In 1960, the poverty threshold for a family of four (\$3,022) was 48 percent of the median income for a family of four (\$6,295).
- In 1965, the poverty threshold for a family of four (\$3,223) was 41 percent of the median income for a family of four (\$7,800).

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<sup>20</sup>University of Wisconsin, Institute for Research on Poverty, “Improving the measurement of American poverty,” *Focus* 19 (2) (Spring 1998): 2, available from: <http://www.ssc.wisc.edu/irp/focus/foc192.pdf>, accessed March 28, 2004.

<sup>21</sup>Richard Bavier, “Do the current poverty thresholds include any amount for health care?” *Poverty Measurement Working Papers*, U.S. Census Bureau, <http://www.census.gov/hhes/poverty/povmeas/papers/koopnow.html> (accessed May 22, 2006). Bavier mentions at least three reasons why the poverty thresholds implicitly include an element for medical expenditures: “First, and most important, Mollie Orshansky’s seminal articles on the creation of the poverty thresholds give no indication that health care was excluded. . . . The presence of medical needs in the official thresholds is confirmed by the 1969 decision to index the thresholds to the CPI for all items, rather than to continue to index with price changes in a low cost market basket of food. . . . Finally, expert opinion has consistently inferred from the multiplier approach used to set the original thresholds that something for medical care was included.”

- In 1970, the poverty threshold for a family of four (\$3,968) was 36 percent of the median income for a family of four (\$11,167).
- In 2004, the poverty threshold for a family of four (\$19,307) was 29 percent of the median income for a family of four (\$66,111).<sup>22</sup>

For 2005, the Census Bureau added a separate adjustment that increased the poverty thresholds by 15 percent, based on the observed increase in real median income for four-person families between 1978 and 2005 using the CPI-U.<sup>23</sup> The result was an increase in poverty of about 2.7 percentage points.

**The official poverty measure does not account for geographic differences in the cost of living.** The current approach treats the entire United States as one economic entity, even though there are often major differences in the cost of living among the states and between urban (and suburban) and rural areas.<sup>24</sup>

How large an impact would adjusting for geographic differences make? Adjustment of the poverty thresholds for geographical differences in the cost of living has very little effect on the overall poverty rate, but significantly affects the poverty rate in some individual states. The official poverty thresholds are the same for every state in the Union, regardless of the cost of living. Charles Nelson of the Census Bureau has developed a procedure to make adjustments for geographical differences in the cost of living using data on fair market rents (FMRs) from the Department of Housing and Urban Development (HUD).<sup>25</sup> Although this procedure does not capture all of the components involved in the cost of living in a state, the cost of housing is certainly a major – if not *the* major – component. For 2004, applying Nelson’s geographical adjustments to the poverty thresholds would lower the overall poverty rate from 12.7 to 12.6 percent, an insignificant change. However, the poverty rate would be increased in relatively high-cost states such as California (from 13.2 to 17.8 percent) and New York (from 15.0 to 16.9 percent), and in the District of Columbia (from 17.0 to 25.2 percent). In contrast, the poverty rate would be decreased significantly in relatively low-cost states such as Mississippi (from 18.7 to

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<sup>22</sup>For poverty thresholds, U. S. Census Bureau, “Table 1. Weighted Average Poverty Thresholds for Families of Specified Size: 1959 to 2004,” Historical Poverty Tables, <http://www.census.gov/hhes/www/poverty/histpov/hstpov1.html> (accessed May 31, 2006). For median income, U.S. Census Bureau, “Table F-8. Size of Family, All Races, by Median and Mean Income: 1947 to 2004,” Historical Income Tables – Families, <http://www.census.gov/hhes/www/income/histinc/f08ar.html> (accessed May 31, 2006).

<sup>23</sup>U.S. Census Bureau, “The Effect of Taxes and Transfers on Income and Poverty in the United States: 2005,” *Current Population Reports*, Series P60-232, p. 13, <http://www.census.gov/prod/2007pubs/p60-232.pdf> (accessed July 31, 2007).

<sup>24</sup>The poverty guidelines, however, provide higher thresholds for Alaska and Hawaii.

<sup>25</sup>Charles Nelson, “Geographic Adjustments in Poverty Thresholds,” U.S. Census Bureau, paper prepared for the Workshop on Experimental Poverty Measures, June 15–16, 2004, [http://www7.nationalacademies.org/cnstat/Geographic\\_Adjustments.pdf](http://www7.nationalacademies.org/cnstat/Geographic_Adjustments.pdf) (accessed July 30, 2007).

13.4 percent), Kentucky (from 17.8 to 12.4 percent), and West Virginia (from 14.2 to 10.3 percent).

Data problems and the realization that intra area differences are larger than inter area differences have discouraged analysts from pursuing this kind of differentiation. But the fact that the potential impact on individuals and families of doing so reveals the often arbitrary and politicized nature of the current debate over poverty rates.

**The official poverty measure does a poor job measuring poverty alleviation efforts (ignoring, for example, the EITC and non-cash benefits).** This is perhaps the measure's most damning flaw—because it ignores the important impact of means-tested benefits on reducing material poverty. A study by the Center on Budget and Policy Priorities, for example, found that the Earned Income Tax Credit has a significant effect in reducing poverty:

Recent research also documents another powerful effect of the EITC: reducing poverty. Census data show that in 2003, the EITC lifted 4.4 million people out of poverty, including 2.4 million children. Without the EITC, the poverty rate among children would have been nearly one-fourth higher. [<sup>26</sup>] Census data show that the EITC lifts more children out of poverty than any other single program or category of programs.<sup>27</sup>

But while the current measure counts cash welfare payments, because they are cash, it does not count the EITC, because the EITC is formally part of the tax code and the official poverty measure is based on “pretax” income. The Earned Income Tax Credit (EITC), instituted in 1975, is a refundable tax credit for low-income, working individuals. In 2006, the maximum amount of the EITC that a family could receive was \$4,536 (if the family had two or more children) and \$2,747 (if the family had one child).<sup>28</sup> A working family or individual with no child present was eligible for the EITC if earned income was less than \$12,000 to \$14,000 depending on marital status, but the amount received was much smaller than for families with children (as much as \$412).<sup>29</sup>

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<sup>26</sup>Analysis of Current Population Survey data by the Center on Budget and Policy Priorities. In 2003, the EITC reduced the number of children in families with below-poverty disposable income from 12.6 million to 10.2 million and the number of Americans (all ages) in families with below-poverty disposable income from 35.3 million to 30.9 million, a decline of 4.4 million. This analysis uses a measure of poverty that counts food, housing, and energy assistance benefits as income and subtracts income and payroll taxes.

<sup>27</sup>Robert Greenstein, “The Earned Income Tax Credit: Boosting Income, Aiding the Working Poor,” Center on Budget and Policy Priorities, August 17, 2005, <http://www.cbpp.org/7-19-05eic.htm> (accessed May 19, 2006).

<sup>28</sup>U.S. Internal Revenue Service. *Earned Income Credit (EIC): For Use in Preparing 2006 Returns*, <http://www.irs.gov/pub/irs-pdf/p596.pdf> (accessed July 31, 2007).

<sup>29</sup>U.S. Internal Revenue Service. *Earned Income Credit (EIC): For Use in Preparing 2006 Returns*, <http://www.irs.gov/pub/irs-pdf/p596.pdf> (accessed July 31, 2007).

Counting the EITC would lower measured poverty by about 1.2 percentage points. But because the EITC goes mainly to families with children (lowering the poverty rate for children under the current measure from about 18.3 percent to about 15 percent), counting it would have almost no impact on other groups.<sup>30</sup>

The current measure also ignores the value of noncash welfare benefits such as food stamps, housing assistance, and free- or reduced-price school lunches—probably because they were quite limited in scope and size in the mid 1960s. But they have grown considerably since then. In 2006, food stamps provided the equivalent of as much as \$5,716 for a four person family<sup>31</sup> (on average, about \$2,600 per household or 1,100 per recipient),<sup>32</sup> and housing subsidies as much as \$15,300<sup>33</sup> (on average, about \$5,388 per household).<sup>34</sup>

Treating the benefits from these three means-tested, noncash programs as the equivalent of income (although their valuation can be problematic) would lower poverty by about 1.2 percentage points.

There are other noncash, means-tested benefits not in this calculation, including school breakfasts, WIC, and child care subsidies (as mentioned above). But the biggest exclusions are

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<sup>30</sup>Counting the EITC would have no effect on the poverty rate for unrelated individuals (which remains at 20.4 percent) and a barely measurable effect for the elderly (from 10.4 percent to 10.3 percent). See U.S. Census Bureau, "Table 5: Percent of People in Poverty, by Definition of Income and Selected Characteristics: 2002 (Revised)," Poverty by Definition of Income (R&D), <http://www.census.gov/hhes/www/poverty/poverty02/r&dtable5.html> (accessed May 19, 2006).

<sup>31</sup> U.S. Department of Agriculture. Center for Nutrition Policy and Promotion. *Official USDA Food Plans: Cost of Food at Home at Four Levels, U.S. Average May 2006*, <http://www.cnpp.usda.gov/Publications/FoodPlans/CostofFoodMay06.pdf> (accessed July 31, 2007).

<sup>32</sup>U.S. Department of Agriculture. Food and Nutrition Service. "Food Stamp Program: Average Monthly Benefit per Person" at <http://www.fns.usda.gov/pd/18fsavgben.htm> (Accessed July 31, 2007)., and author's calculations to annualize the amounts.

<sup>33</sup>Sharon Stern, "Housing Subsidies in a Measure of Poverty," paper prepared for the National Academy of Sciences Workshop on Experimental Poverty Measures, June 15–16, 2004, p. 11, [http://www7.nationalacademies.org/cnstat/Housing\\_Subsidies.pdf](http://www7.nationalacademies.org/cnstat/Housing_Subsidies.pdf) (accessed August 1, 2005). The maximum monthly housing subsidy on the 1999 American Housing Survey data file is \$1,275, or about \$15,300 per year. This amount is largely in agreement with maximum amounts for housing subsidies reported at the state level. See Alan S. Oser, "Perspectives: State Housing Aid; In the Albany Crucible, New Subsidies for Shelter," *The New York Times*, December 1, 1985, <http://query.nytimes.com/gst/fullpage.html?res=9B00EEDC1F38F932A35751C1A963948260&sec=&pagewanted=print> (accessed June 7, 2006). "The grants in the affordable-housing program can go as high as \$15,000 a unit or 40 percent of the cost of a project, whichever is less."

<sup>34</sup>Vee Burke, "Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY2000–FY2002," Congressional Research Service, CRS Report for Congress, November 25, 2003, page CRS-120, [http://www.opencrs.com/rpts/RL32233\\_20031125.pdf](http://www.opencrs.com/rpts/RL32233_20031125.pdf) (accessed June 6, 2006).

Medicaid for the poor, roughly \$2,000 per person<sup>35</sup> (about \$7,290 for a four-person family),<sup>36</sup> and Medicare for the aged and disabled, almost \$5,500 per person.<sup>37</sup> Depending on how they are valued, including them would reduce measured poverty by about 0.5 percentage points to 3.0 percentage points.<sup>38</sup> Ironically, the impact of this medical coverage on the poverty rate is so large that few analysts suggest counting it.

### Implications

Taken together, the adjustments described above—except for raising the poverty thresholds to estimate a relative poverty measure—are in accord with the documented improvement in the standard of living of low-income families. As analysts as politically diverse as Christopher Jencks of Harvard University and Nick Eberstadt, my colleague at the American Enterprise Institute, have pointed out, the well-being of the poor, whether it be measured in health or material possessions, is palpably better than in the early 1970s—even though there is little sign of that improvement in the official poverty rate. After examining a wide range of data that included housing conditions, food spending, health indicators (including doctor visits), and access to telephones and motor vehicles, in addition to the data on poverty, Christopher Jencks (Harvard University), Susan Mayer (University of Chicago), and Joseph Swingle (Wellesley College) concluded:

Almost all our measures suggest that low-income children's living conditions improved fairly steadily between 1969 and 1999. The data on food expenditures are an exception, but their accuracy is suspect. . . . Our best poverty estimates suggest, for example, that

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<sup>35</sup>U.S. Congressional Budget Office, "Fact Sheet for CBO's March 2004 Baseline: Medicaid and the State Children's Health Insurance Program," <http://www.cbo.gov/budget/factsheets/2004b/medicaid.pdf> (Accessed May 18, 2006).

<sup>36</sup>U.S. Department of Health and Human Services, "Table 95: Medicaid Payments per Person Served (Beneficiary), by Eligibility Group: Fiscal Years 1975-2002," Medicare & Medicaid Statistical Supplement, <http://www.cms.hhs.gov/MedicareMedicaidStatSupp/LT/itemdetail.asp?filterType=none&filterByDID=99&sortByDID=1&sortOrder=ascending&itemID=CMS060377> (accessed June 7, 2006). The calculation of average Medicaid payments for a four-person family assumes the presence of two adults and two children, but no aged or disabled persons.

<sup>37</sup>U.S. House of Representatives, *2004 Green Book: Background Material and Data on the Programs within the Jurisdiction of the Committee on Ways and Means*, Committee on Ways and Means, WMCP: 108-6 (Washington, DC: U.S. Government Printing Office, March 2004), Tables 2-1 and 2-2.

<sup>38</sup>For estimates of the fungible value of medical care: U.S. Census Bureau, "Table 5: Percent of People in Poverty, by Definition of Income and Selected Characteristics: 2002 (Revised)," Poverty by Definition of Income (R&D), <http://www.census.gov/hhes/www/poverty/poverty02/r&dtable5.html> (accessed May 18, 2006). For estimates of the market value of medical care: U.S. Census Bureau, "Alternative Methods for Valuing Selected In-Kind Transfer Benefits and Measuring Their Effect on Poverty," *Technical Paper 50* (Washington, DC: U.S. Government Printing Office, 1982), p. 82.

the level of child poverty was roughly the same at the end of the 1980s as at the end of the 1960s. Yet our measures of living conditions almost all improved during this period.<sup>39</sup>

And Nicholas Eberstadt, drawing on statistical data from a wide range of government sources, found equally significant improvements over the past several decades for low-income people in their health status and access to medical care, ownership of vehicles and major consumer durables, and in the general condition of their housing.<sup>40</sup>

Poverty has not disappeared. Even taking the most aggressive approach to these new statistics, about 5 percent of Americans, or about 15 million people, are living below the poverty line, with millions more living just above it. And, as the post-Katrina images have reminded us, there are still large pockets of deep poverty and social deprivation.

But these new statistics do mean that over the past thirty-eight years, substantial progress has been made against poverty. Millions of people are living palpably better lives because of higher earnings or because of government assistance.

Both conservatives and liberals should welcome this news. Conservatives will prefer the earnings side of the story, of course, and will argue that economic expansion and responsible personal behavior are the best antipoverty programs. And liberals will like the government assistance story, and will argue that cutting benefits would increase poverty; in fact, they will probably argue that increasing benefits would further reduce “post-transfer” poverty.

The broader point, however, should not be lost. A combination of higher earnings and government assistance has reduced material deprivation over the past forty years. Certainly not as much as any of us would like, but this very good news should encourage those on both sides of the ideological divide who have been disheartened by the seeming intractability of poverty.

### **Obstacles to Reform**

As shown above, the official poverty measure provides an imperfect picture of economic resources available to low-income Americans. If the flaws are so clear why has it proven so difficult to reform the measure? I think that there are four main reasons.

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<sup>39</sup>Christopher Jencks, Susan E. Mayer, and Joseph Swingle, “Can We Fix the Federal Poverty Measure So it Provides Reliable Information About Changes in Children’s Living Conditions?” paper presented at the seminar on “Reconsidering the Federal Poverty Measure” held by the University of Maryland and the American Enterprise Institute, September 7, 2004, [http://www.welfareacademy.org/pubs/poverty/povmeas\\_canwefix.pdf](http://www.welfareacademy.org/pubs/poverty/povmeas_canwefix.pdf) (accessed May 9, 2006).

<sup>40</sup>Nicholas Eberstadt, “Indicators of Deprivation and Well-Being in Modern America: A Look Beyond the Poverty Rate.” PowerPoint presentation at a seminar on “Reconsidering the Federal Poverty Measure” held at the American Enterprise Institute, May 16, 2005, <http://www.welfareacademy.org/pubs/poverty/eberstadt.ppt#318,2,Outline of Presentation> (accessed May 18, 2006).

- Correcting the technical flaws in the official poverty measure is *scientifically difficult and raises many legitimate conceptual disagreements*. Much of the Census Bureau data upon which a new measure would be based are obsolete and inaccurate and even the infusion of substantial additional funds might not help. Moreover, there are broad disagreements about how to handle a myriad of issues, such as MOOP and transportation and child care expenses.
- Correcting the technical flaws in the official poverty measure *would tend to lower poverty rates, and many think the current measure understates true poverty*. I think the others on this panel have expressed this issue as well as I can.
- Correcting the technical flaws in the official poverty measure—or raising poverty thresholds—*would play havoc with the eligibility rules of many means-tested programs (and many formulas for federal aid to the states)*.
- Finally, the current measure does *a credible job making year-to-year comparisons in poverty rates—and the political system has adjusted to it by setting eligibility for many programs at multiples of the current thresholds*.

#### **Multiple definitions**

Hence, I despair of achieving wide agreement about a reformed poverty measure and, in fact, have grown to believe that it would be much better to develop additional measures that broaden and enrich our understanding of contemporary poverty and the needs of the poor.

That's what is so important about recent Census Bureau efforts to develop additional definitions of income and therefore poverty: money income, market income, post-social insurance income, and disposable income.<sup>41</sup> The Census Bureau notes that, "These measures are presented to illustrate various dimensions of economic well-being and the impact of taxes and transfers."<sup>42</sup> A description of each of the definitions from the Census Bureau report is shown below:<sup>43</sup>

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<sup>41</sup>U.S. Census Bureau, "The Effect of Taxes and Transfers on Income and Poverty in the United States: 2005," *Current Population Reports*, Series P60-232, <http://www.census.gov/prod/2007pubs/p60-232.pdf> (accessed July 30, 2007).

<sup>42</sup>U.S. Census Bureau, "The Effect of Taxes and Transfers on Income and Poverty in the United States: 2005," *Current Population Reports*, Series P60-232, p. 1, <http://www.census.gov/prod/2007pubs/p60-232.pdf> (accessed July 30, 2007).

<sup>43</sup>U.S. Census Bureau, "The Effect of Taxes and Transfers on Income and Poverty in the United States: 2005," *Current Population Reports*, Series P60-232, p.2, <http://www.census.gov/prod/2007pubs/p60-232.pdf> (accessed July 30, 2007).

- **Money Income:** Includes all cash income received by individuals who are 15 years or older. It consists of income as reported, before deductions for taxes and other expenses. It does not include realized capital gains or lump-sum payments that may be disbursed from insurance companies, workers' compensation, or pension plans.
- **Market Income:** Includes money income as described above and deducts government cash transfers. Government cash transfers are social security; supplemental security income (SSI); public assistance (including Temporary Assistance for Needy Families [TANF]); unemployment compensation; workers' compensation; veterans' payments; and survivor, pension, and disability benefits from certain sources.<sup>44</sup> This definition also includes imputed net realized capital gains and imputed rental income (also called return on home equity) and subtracts imputed work expenses excluding child care.<sup>45</sup>
- **Post-Social Insurance Income:** Includes money income, imputed net realized capital gains, and imputed rental income; subtracts imputed work expenses as in market income; and also deducts government means-tested cash transfers. These include SSI, public assistance, and government paid means-tested veterans' payments. Post-social insurance income differs from market income by adding back non-means-tested government transfers, most notably social security.<sup>46</sup>
- **Disposable Income:** Includes money income, imputed net realized capital gains, and imputed rental income; and subtracts imputed work expenses. Disposable income also deducts federal payroll taxes, federal and state income taxes, and property taxes for

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<sup>44</sup>Government paid survivor, pension, and disability benefits include those paid by workers' compensation, U.S. Railroad Retirement, Black Lung Benefits, and State Temporary Sickness.

<sup>45</sup>Capital gains and losses are imputed using a statistical match to the 2001 Statistics of Income public use file from the Internal Revenue Service as part of the CPS ASEC tax model. For modeled tax filers, the imputed amounts are added to money income and are included as taxable income. Imputed rental income reflects the income homeowners would receive if they rented out their home; this value is added to money income to put homeowners and renters on a more equal footing. The return on home equity imputed for the CPS ASEC is an approximation of this income flow computed by applying a rate of return to imputed home equity. The American Housing Survey (AHS) provides the home and land values and mortgage debt used to compute home equity. The current year's return on municipal bonds is used as the rate of return. The 2006 ASEC uses 2003 National AHS data. Previous years used home equity based on 1995 National AHS data. This modeling improvement was repeated for the 2005 ASEC to make valid year-to-year comparisons in Table A-1. Work expenses are imputed from the Survey of Income and Program Participation (SIPP) 2001 Panel. The Census Bureau is considering changes to its child-care expenses imputation procedures and is deferring their inclusion in the report until either the current method can be validated or an improved method can be found.

<sup>46</sup>Non-means-tested government transfers include unemployment compensation, workers' compensation, social security, and the survivor, pension, and disability benefits [described in footnote 18 in the Census Bureau report.]



owner-occupied homes.<sup>47</sup> The value of noncash transfers is added, including food stamps, public or subsidized housing, and free or reduced-price school lunches.<sup>48</sup>

(See table 1.)

A recent Census Bureau report shows the effect of these four different definitions on the poverty rate in 2005, as well as the effect of using poverty thresholds that are 15 percent higher than the official thresholds (discussed above).<sup>49</sup> Based on money income, which is the official definition, the poverty rate in was 12.6 percent. The poverty rate is higher using market income (18.9 percent), about the same using post-social insurance income (12.7 percent), and lower using disposable income (10.3 percent). The Census Bureau also estimated the poverty rate using poverty thresholds that are 15 percent higher than the official thresholds, which are based on the a roughly 15 percent increase in real median family income for four-person families from 1978 to 2005 using the CPI-U. The resulting poverty rates using these higher thresholds are as follows: money income (15.3 percent), market income (21.2 percent), post-social insurance income (15.1 percent), and market income (13.2 percent).<sup>50</sup>

I strongly support such efforts (although I disagree with some of the particulars) and I think your subcommittee is considering legislation along the same lines.

Thank you.

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<sup>47</sup>Property taxes are imputed from the 2003 National AHS.

<sup>48</sup>The reported value of food stamps is used; the value of housing subsidies is modeled using the 1985 National AHS; and the value of school lunches is modeled using parameters from the Food and Nutrition Service of the U.S. Department of Agriculture.

<sup>49</sup>U.S. Census Bureau, "The Effect of Taxes and Transfers on Income and Poverty in the United States: 2005," *Current Population Reports*, Series P60-232, p. 13, <http://www.census.gov/prod/2007pubs/p60-232.pdf> (accessed July 30, 2007).

<sup>50</sup>U.S. Census Bureau, "The Effect of Taxes and Transfers on Income and Poverty in the United States: 2005," *Current Population Reports*, Series P60-232, p. 13, <http://www.census.gov/prod/2007pubs/p60-232.pdf> (accessed July 30, 2007).

Table 1. Census Bureau Definitions of Income.

| Income Sources  | Money Income | Market Income  | Post-Social Insurance Income | Disposable Income |
|---|--------------|----------------|------------------------------|-------------------|
| <i>Market Cash Income</i>   |              |                |                              |                   |
| Wages and salaries  | ✓            | ✓              | ✓                            | ✓                 |
| Self-employment income  | ✓            | ✓              | ✓                            | ✓                 |
| Property income <sup>a</sup>  | ✓            | ✓              | ✓                            | ✓                 |
| Retirement pensions and annuities                                   | ✓            | ✓ <sup>b</sup> | ✓                            | ✓                 |
| Survivor pensions and annuities                                     | ✓            | ✓ <sup>b</sup> | ✓                            | ✓                 |
| Disability pensions and annuities                                   | ✓            | ✓ <sup>b</sup> | ✓                            | ✓                 |
| Net realized capital gains  |              | ✓              | ✓                            | ✓                 |
| <i>Market Noncash Income</i>  |              |                |                              |                   |
| Employer contributions for health insurance                         |              |                |                              |                   |
| Employer contributions for pensions                                 |              |                |                              |                   |
| Net imputed rent for owner-occupied housing                         |              | ✓              | ✓                            | ✓                 |
| <i>Contributions from Outside the Household</i>                     |              |                |                              |                   |
| Child Support   | ✓            | ✓              | ✓                            | ✓                 |
| Alimony   | ✓            | ✓              | ✓                            | ✓                 |
| Contributions from persons outside the household                    | ✓            | ✓              | ✓                            | ✓                 |
| <i>Educational Assistance</i>                                       |              |                |                              |                   |
| Educational assistance from government sources only                 | ✓            |                | ✓                            | ✓                 |
| Grants, scholarships, etc. from school only                         | ✓            | ✓              | ✓                            | ✓                 |
| <i>Other Cash Income</i>  |              |                |                              |                   |
| <i>Expenditures Deducted from Income</i>                            |              |                |                              |                   |
| Deduct MOOP   |              |                |                              |                   |
| Deduct work-related child care                                      |              |                |                              |                   |
| Deduct work-related transportation and other (excluding child care) |              | ✓              | ✓                            | ✓                 |
| <i>Taxes</i>  |              |                |                              |                   |
| Deduct federal income taxes   |              |                |                              | ✓                 |
| Deduct state income taxes   |              |                |                              | ✓                 |
| Deduct federal payroll taxes  |              |                |                              | ✓                 |
| Deduct property taxes   |              |                |                              | ✓                 |

Chairman MCDERMOTT. Thank you. Mark Greenberg is the Executive Director of the taskforce on poverty, Center of American Progress Institute.

Mark?

We will probably have another vote, and then we'll have a little bit, and so understand, we are going to get up and go. Whatever you have got to say, say it up front.

**STATEMENT OF MARK GREENBERG, DIRECTOR, TASK FORCE ON POVERTY, CENTER FOR AMERICAN PROGRESS INSTITUTE**

Mr. GREENBERG. We are aware and, Mr. Chairman and members of the Subcommittee, first let me thank you for holding this hearing, for the other hearings you have held over the course of the year in efforts to bring renewed attention to the importance of addressing poverty in the United States.

For purposes of my oral testimony right now, I want to do three things. I want to briefly focus on why, in my view, it is important to develop and improve measure of poverty. I want to talk about some principles to guide the process and then make some suggestions for how you might move forward.

As indicated, I have been serving as the Director of a task force on poverty for the Center for American Progress, and we actually spent the better part of the year working on how to make the case for why the nation should address poverty and making recommendations for what should be done about it. In the course of that, we did a lot of consultation around the country and as we did so, our principal focus was not on the measure of poverty, but a couple of things kept coming up. First, when we would talk to people around the country about approaches to addressing poverty, the recurrent theme is that it is problematic to start with the existing measure, because the existing measure is rarely useful as a way of measuring need, because it is so low in relation to the cost of living.

The existence of things like family budgets, of self-sufficiency standards, of setting program eligibility as the multiple of the poverty line, of a set of research that increasingly treats 200 percent of poverty as a measure of low income. All those are different ways in which people are saying we need a better measure to reflect what it costs to make ends meet, that the poverty line simply does not reflect it.

It is also true that it is a problem in my view that the existing measure does not well pick up the effects of policy. When we looked at a set of policies for improving family well-being, expanding the earned income tax credit, raising the child tax credit, improving childcare assistance, increasing housing subsidies, in each case we faced the issue that if you make a set of changes which will clearly improve well-being, it is not going to be picked up in the official measure. It is, in my view, important that we have an effective measure that both looks at what families need to get by and then does effectively measure the resources that are available to them to do it.

That really is crucial as a means of developing policies for moving ahead. Now, I also think that the case for developing a better poverty measure had been made in a thoughtful and compelling way by the National Academy of Sciences panel a dozen years ago, and when they did so, I think a central insight from their approach is that in thinking about how to address poverty, the first question should not be what income do we count, but rather, what is it that we are trying to measure.

The poverty line needs to be something where we can articulate what it is trying to measure. It needs to be a reasonable one, something that is understandable to the public, something that is broadly acceptable, and the current measure fails to meet that standard. It does so for many of the reasons Mr. McDermott talked about in his opening, that when one tries to explain to anyone that this was a measure developed in the early 1960s, based upon a food plan at that time multiplied by three, and we have only since then adjusted for prices, people do not understand how that is a useful

way of thinking about what it is that families need to get by. So, we need a better measure to do it.

The National Academy of Sciences also focused on what they refer to as internal consistency in thinking about the measure, and essentially what they meant by that is that you want to start by what it is that you are trying to measure, then develop a measure of it. That if you are trying to measure the cost, if you think what should be in the poverty measure is a set of basic needs, articulate what those are, determine what the costs of those are, count the resources that are available to meet them, don't count the resources that are not available to meet them.

In my view, that is a thoughtful, reasonable way to think about moving ahead. There can certainly be and indeed there are real disagreements about what we should think about as the basic need. In the case of the National Academy of Sciences panel, the approach they took was to essentially say we should look at food, clothing, shelter, and a little more. I think a compelling case can be made, but that is an inadequate way of looking at basic needs, that we need to have a broader sense of it.

That it is not that everything beyond that is. If we are thinking about what it is that children need to grow up in a healthy, developmentally appropriate way to be contributing members of society, we all aspire to more than food, clothing and shelter. So it makes sense to build that in. Similarly, if we think about the recognized importance of people being able to save for education or homeownership, for retirement, or for the future needs of children, we would want to build in things like that. So, a whole set of things ought to be considered, but I would most emphasize that I think the NAS overall framework offers a useful starting point for moving forward.

So, let me just quickly say, in terms of a concrete recommendation for the panel, while the NAS has a useful approach, it clearly is a starting point. There are a lot of both conceptual and technical issues still to be resolved. So, I would make two broad recommendations to you. One is that I believe it would be useful to direct the Census Bureau to report back to you, and in that report for them to address to what extent it is feasible to replace the existing measure with something using the NAS as a starting point.

Second, what are the kinds of data limitations that affect the ability to do that and the ability to measure poverty well.

What would need to be done to address them? What would it cost to do that? So, that Congress can have that in front of you; and, then, because it has been a dozen years since the NAS report, what does the research and experimentation and analysis since then tell us about whether particular recommendations ought to be reconsidered or new ones built in.

My final point then is, as several other panelists have suggested, it is important to have additional measures. No single measure is going to reflect everything that we would want to know. Just as we have a poverty measure, it would be useful to develop this broader measure of a make ends meet or a decent living standard. It might be useful to have the measure of relative poverty in relation to median income. It would be useful to have a measure of asset poverty.

[The prepared statement of Mr. Greenberg follows:]

**Prepared Statement of Mark Greenberg, Executive Director, Task Force on Poverty, Center for American Progress**

Mr. McDermott and Members of the Subcommittee:

Thank you for holding this hearing and others this year, bringing renewed attention to the importance of addressing poverty in America. In this testimony, I will provide some brief background, and then discuss why the method for measuring poverty should be updated, some principles that should guide the effort and recommendations to move the process forward.

I am the director of the Task Force on Poverty at the Center for American Progress (CAP), a non-profit, non-partisan public policy think tank in Washington, D.C. I am on leave from the Center for Law and Social Policy, where I was the Director of Policy. CAP's fourteen-member Task Force<sup>1</sup> was charged with making a case for why the nation should address poverty and proposing a strategy for how to do so. In April, CAP's Task Force released its report, **From Poverty to Prosperity: A National Strategy to Cut Poverty in Half**.<sup>2</sup>

Our Task Force's principal focus was not on the definition of poverty, but rather strategies for addressing it. Nevertheless, the question of how poverty should be defined came up repeatedly in our efforts, in two significant and related ways.

- First, when seeking the views of state and local actors about strategies to reduce poverty, one of the most common initial observations was that it was rarely useful to use the official poverty line as a measure of need, because it was so low in relation to living costs. In recent years, the increased reliance on approaches like self-sufficiency standards, family budgets, and setting program eligibility at some multiple of the poverty line is a direct response to concerns that the poverty line simply doesn't adequately reflect the amounts that families need in order to get by.
- Second, as our Task Force considered policy responses to reduce poverty, we faced, in practical terms, an issue that is routinely recognized in the academic discussions of poverty measurement. Many initiatives that would clearly improve economic well-being for low-income families would have no effect on poverty under official measures, because the official measure does not count the effects of tax policy and near-cash benefits or adjust for work-related costs. For example, expanding the Earned Income Tax Credit or Child Tax Credit would not reduce the official poverty rate (except indirectly if it affected employment), even though it would increase family resources. Expanding child care assistance would not reduce the official poverty rate (except by raising employment) even though it would defray costs that families face in going to work. Expanded housing subsidies or improved food stamp participation rates would also not affect the official poverty rate.

We ultimately addressed the first issue by emphasizing in our report that while 37 million Americans were living in poverty, a far larger group faced the challenge of making ends meet, and by developing policy proposals that were sensitive to and grounded in this reality. We addressed the second issue by using a modified measure of poverty when calculating the poverty reduction effects of our proposals, drawing upon recommendations from the National Academy of Sciences' Panel on Poverty and Family Assistance: Concepts, Information Needs and Measurement Methods in **Measuring Poverty: A New Approach** (National Research Council, 1995). This modified measure counted the effects of tax policy, treated food stamps and housing benefits as income, and deducted out-of-pocket child care expenses from income. Only in doing so could one fully see the real effects of a set of policies in improving family well-being. At the same time, we could not readily incorporate every NAS recommendation into our analysis, and only adjusted poverty thresholds to the

<sup>1</sup>Task Force members were **Angela Glover Blackwell**, Founder and CEO, PolicyLink (co-chair); **Peter B. Edelman**, Professor of Law, Georgetown University (co-chair); **Rebecca Blank**, Dean, Gerald R. Ford School of Public Policy, Henry Carter Adams Collegiate Professor of Public Policy, University of Michigan; **Linda Chavez-Thompson**, Executive Vice President, AFL-CIO; **Reverend Dr. Floyd H. Flake**, President, Wilberforce University; **Wizipan Garriott**, Law Student and Board President of the He Sapa Leadership Academy; **Maude Hurd**, National President, ACORN; **Charles E. M. Kolb**, President, Committee for Economic Development; **Meizhu Lui**, Executive Director, United for a Fair Economy; **Alice M. Rivlin**, Senior Fellow and Director, Greater Washington Research Program, Brookings Institution; **Barbara J. Robles**, Associate Professor, Arizona State University; **Robert Solow**, Professor Emeritus, Massachusetts Institute of Technology; **Dorothy Stoneman**, Founder and President, YouthBuild USA; and **Wellington E. Webb**, Former Mayor of Denver.

<sup>2</sup>Task Force on Poverty, *From Poverty to Prosperity: A National Strategy to Cut Poverty in Half* (Center for American Progress, April 2007), available at [http://www.americanprogress.org/issues/2007/04/pdf/poverty\\_report.pdf](http://www.americanprogress.org/issues/2007/04/pdf/poverty_report.pdf).

extent necessary to begin our analysis with the same number of people in poverty as would be the case under official measures.<sup>3</sup> Our experience underscored the need for the federal government to improve and modernize the definition of poverty, in order to develop both more realistic thresholds, a better measure of resources, and a more effective way to gauge the effects of government policies.

While my principal focus in this testimony is on the need to improve the poverty measure, I want to begin by emphasizing that we get much valuable information from the current one. The current measure is a useful and reliable indicator of the extent of serious deprivation, and of the extent of disparities across races, sex, and ages, workers and non-workers, and other groups. Most importantly, year-to-year changes help us understand whether more or fewer families are struggling to get by. Alternative measures—including those based on the National Academies of Sciences recommendations—show different poverty levels, but typically reflect quite similar trends because the largest sources of income and, thus, the largest “driver” of poverty rates will be cash income from sources that are included in the official measure.

I believe the poverty measure can be significantly improved. Still, the shortcomings of the current measure should not be used to dismiss the information provided by the current poverty measure about the state of our nation.

#### **Why Should the Measure of Poverty be Updated?**

There are few, if any, defenders of the current poverty measure. It remains in place for two principal reasons. First, there are a host of genuinely difficult conceptual and technical issues to be resolved in determining how poverty should be measured. Second, adopting any alternative measure is fraught with political controversy because it will likely result in either more or fewer people reported as “poor” (either immediately or in the long run); greater or lesser measured poverty rates for particular demographic, racial, and geographical and other subgroups; and uncertain implications for determining eligibility and distributing funds for individuals, localities, and states.

Given these challenges, why is it important to update the measure of poverty?

No single statistic can capture every dimension of need, consumption, hardship or well-being. An income statistic measures, at best, income, but not how that income is spent; what would have happened if it had been spent differently; or whether a family has greater or lesser needs due to particular individual, family, neighborhood, or regional factors. An income statistic may provide little or no insight into factors that affect current and future well-being such as health, education, social and family relationships, community conditions, and others. Moreover, any time a line is drawn, differences between those slightly below and slightly above the line may be minimal or non-existent. And, even families with identical incomes and needs may be very differently situated based on the presence or absence of assets, which are reflected at best only indirectly through any income-based poverty measure.

Moreover, important dimensions of need cannot be measured by income alone. Policy efforts in Europe often situate their discussions of income poverty within a broader context of social inclusion, a term used to encompass concern about those outside the social mainstream who are unable to fully participate in the normal activities of citizens. The idea of social inclusion emphasizes that integration of people into the social mainstream calls for addressing the range of issues that prevent full participation in society, and that this necessarily calls for going beyond a narrow focus on income.

Accordingly, the poverty measure cannot and should not be the sole measure of need or well-being, but it is important. Research commissioned for CAP’s Task Force on Poverty found that the cost to the U.S. economy from children growing up in persistent poverty is in the range of \$500 billion a year.<sup>4</sup> The poverty measure provides a broad picture of the number and characteristics of Americans who are living with incomes below a level generally recognized as inadequate to meet crucial needs. Moreover, ideally the poverty measure would show the extent of deprivation before and after taxes and government transfers, so that there is a clear picture of the ex-

<sup>3</sup>For a detailed discussion of the methodology, see Linda Giannarelli, Laura Wheaton, and Joyce Morton, *Estimating the Anti-Poverty Effects of Changes in Taxes and Benefits with TRIM3* (Urban Institute, April 25, 2007), available at <http://www.urban.org/publications/411450.html>.

<sup>4</sup>Harry Holzer, Diane Whitmore Schanzenbach, Greg J. Duncan, and Jens Ludwig, al., *The Economic Costs of Poverty: Subsequent Effects of Children Growing Up Poor* (Center for American Progress, January 24, 2007), available at [http://www.americanprogress.org/issues/2007/01/pdf/poverty\\_report.pdf](http://www.americanprogress.org/issues/2007/01/pdf/poverty_report.pdf).

tent to which government policy is or is not reducing deprivation. As such, it is in all of our interests to have a better measure than the current one.

What are the principal problems with the current measure? Many of the difficulties were catalogued in the thoughtful and balanced 1995 report of the National Academy of Sciences panel, **Measuring Poverty: A New Approach**. Among the concerns identified by the NAS panel:

- the current poverty thresholds cannot be justified as reflecting contemporary costs for meeting basic needs;
- the poverty measure does not reflect the costs of child care and other work-related expenses;
- it does not reflect regional cost variations;
- it does not reflect that funds spent to meet health care costs are not available to meet other needs;
- it does not reflect that funds spent to meet child support obligations are not available to meet other needs;
- it does not reflect the impact of taxes; and
- it does not reflect the provision of near-cash benefits such as food stamps and housing assistance.

Sometimes in discussing poverty measurement, an individual may focus on one particular problem with the measure—e.g., that it is too low, or does not count taxes or near-cash benefits. An important insight from the NAS panel is the need to look at the issues together using an internally consistent approach to measurement. A poverty measurement effort should be able to articulate what it is seeking to measure, and its thresholds and rules about which resources are counted should be consistent with each other and the underlying purpose. For example, if the goal is to measure whether families have sufficient resources to meet their food, clothing, and shelter needs, then it makes sense to set a threshold that reflects the resources needed to do so, to count resources that are available to meet the needs, and not count as resources items that are not available to meet those needs. But if, for example, the threshold is not constructed to include the amounts needed to pay for medical costs, child care, and work expenses, then the amounts families must pay for those costs should not be counted as available to meet other needs. Alternatively, if the goal is to measure whether families have resources to meet a broader set of needs, then the thresholds and counting rules should be constructed consistent with that intent.

Thus, a fundamental problem with the current measure is that it is not clear what it seeks to measure, the thresholds are not based on the actual costs of meeting a set of needs in today's economy, and it brings no consistent approach to when income is counted or excluded in the measurement. It fails to count resources that are available to meet basic living costs, and yet counts resources that are not available to meet basic living costs. The result is a framework that distorts our understanding of when families are in need, and impairs our ability to see whether government efforts to provide assistance are improving family well-being.

#### **What Should the Poverty Line Measure?**

The key insight offered by the NAS should be the starting point for any discussion of measuring poverty: before asking what should be counted as income, one should begin by asking what the poverty line seeks to measure. Then, decisions about how thresholds are set and which resources are included or excluded should be made in a manner consistent with the decision about what's being measured.

In a broad sense, the current thresholds are often viewed as being the levels of income that families need in order to meet their most basic needs. However, the actual dollar figure for the current thresholds is essentially an arbitrary figure: it reflects an early-1960s calculation of the cost of a low cost food plan designed for temporary or emergency use when funds are low, multiplied by three because food represented about one-third of a family budget in 1955, and then essentially adjusted only for changes in the consumer price index. Since that time, there have been dramatic changes in family budgets and living standards that are not reflected in the measure. As such, there is no real justification for the current thresholds other than they continue a historical series and there is not agreement on what should replace them.

Since the poverty line has only been adjusted to reflect changes in prices since the 1960s, it has fallen over time in relation to family median income. The poverty threshold for a family of four was about 49 percent of median income for a family of four in 1959; it was 28.4 percent of median income for a family of four in 2005. Thus, having income below the poverty line now means that a family is much further from the mainstream than was the case in earlier decades. Notably, inter-

national comparisons often measure poverty in relation to 50 percent of median income. In the United Kingdom's commitment to end child poverty by 2020, a principal measure is the share of children in families below 60 percent of median income.

Evidence from multiple sources suggests that a substantially higher figure would be used if the goal were to determine the amount that a family needs to "get by" or "make ends meet." The NAS' report expressly recognized that by 1992, the amount that survey respondents estimated a family needed to "get along" in the community was 76 percent higher than the poverty level. In recent years, a number of groups have developed various family budgets, generally intended to reflect a level at which a family can "make ends meet" or live decently. While methodologies differ, the analyses typically find that the average amount needed to attain such a standard is roughly twice the current poverty line, with significant regional variation. For example, the Economic Policy Institute has calculated basic family budgets for over 400 communities, intended to reflect the income a family needs to secure safe and decent-yet-modest living standards in the community. The budget items that are included in the basic family budgets are: housing, food, child care, transportation, health care, other necessities, and taxes. EPI concluded that the range of basic family budgets for a two-parent, two-child family was \$31,080 (rural Nebraska) to \$64,656 (Boston, Massachusetts). The median family budget of \$39,984 contrasted with the \$19,157 poverty threshold for this size family.<sup>5</sup> Wider Opportunities for Women has worked with states, localities, and community groups in most states to develop self-sufficiency standards. Self-sufficiency standards are calculated using a standard methodology that considers the costs of food, housing, medical care, transportation, child care, miscellaneous costs, and taxes. These studies routinely find that the amount a family needs to meet basic costs under such a budget is at least twice the federal poverty line.<sup>6</sup> The National Center for Children in Poverty's estimates, using its Basic Needs Budget Calculator, are that across the country, families on average need an income of about twice the official poverty level, or roughly \$40,000 for a family of four, to meet basic needs. In a high-cost city like New York, the figure is over \$50,000, whereas in rural areas, the figure is in the low \$30,000s.<sup>7</sup>

Recent public opinion surveys also repeatedly find the public estimates that amounts needed to live decently are substantially higher than the poverty level. Note that surveys use a range of wording which could affect survey results:

- In a 2004 survey by Corporate Voices for Working Families, 59 percent of respondents thought a family of four needed to earn at least \$40,000—an amount over twice the federal poverty line—"to support a family of four at a decent level." Only one percent thought that income of \$15,000 to \$20,000 was sufficient to do so.<sup>8</sup>
- A 2006 survey for the Catholic Campaign for Human Development reported that most (55 percent) respondents thought the amount of income a family of four needed to meet basic needs was \$36,000 or more; 11 percent thought it was \$20,000 or less.<sup>9</sup>
- In an April 2007 survey conducted for Northwest Areas Foundation, 69 percent of a national sample indicated that a family of four needed to earn \$40,000 or more "in order to make ends meet" in their community. In state samples, the percentage indicating \$40,000 or more was needed was 55 percent in Idaho; 57 percent in Iowa; 66 percent in Minnesota; 51 percent in Montana; 54 percent in North Dakota; 62 percent in Oregon; 50 percent in South Dakota; and 71 percent in Washington. Seven percent of national respondents, and 5 to 16 percent of state respondents thought \$20,000 or less was sufficient to "make ends meet."<sup>10</sup>

Note that the public appears to draw a distinction between the amounts needed to make ends meet and the appropriate level for a poverty line. In 2001, an NPR/

<sup>5</sup> Sylvia Allegretto, *Basic family budgets: Working families' incomes often fail to meet living expenses around the U.S.* (Economic Policy Institute, September 1, 2005), available at <http://www.epi.org/briefingpapers/165/bp165.pdf>.

<sup>6</sup> Wider Opportunities for Women, *Setting the Standard for American Working Families* (2003), available at [http://www.wowonline.org/docs/FINAL\\_FESS\\_report\\_072103.pdf](http://www.wowonline.org/docs/FINAL_FESS_report_072103.pdf).

<sup>7</sup> National Center for Children in Poverty, *Measuring Income and Poverty in the United States*, (April 2007), [http://www.nccp.org/publications/pdf/text\\_707.pdf](http://www.nccp.org/publications/pdf/text_707.pdf).

<sup>8</sup> Corporate Voices for Working Families Survey, (July–August 2004).

<sup>9</sup> Market Research Bureau LLC, *Poverty Pulse, Wave VII*, (Catholic Campaign for Human Development, January 2007), available at <http://www.usccb.org/cchd/PovertyPulseVII.pdf>.

<sup>10</sup> Lake Research Partners, *Survey Conducted for Northwest Areas Foundation*, (April 2007), available at [http://programs.nwaf.org/pr/nwaf/info/document/NWAF\\_topline\\_natl\\_and\\_states.pdf](http://programs.nwaf.org/pr/nwaf/info/document/NWAF_topline_natl_and_states.pdf).



Kaiser/Kennedy School poll asked what income level would make a family of four poor. In that year, when the poverty threshold for four was \$17,960, most respondents would use a higher figure, with 64 percent considering a family with earnings of \$20,000 to be poor, and a substantial group (42 percent) considering a family with earnings of \$25,000 to be poor.<sup>11</sup>

Thus, if the goal were to set a line for the level at which families could “live decently” or meet all basic needs, it seems clear that the poverty line would be set substantially higher than the current one. The NAS took a far more modest approach. It proposed that the poverty thresholds should represent a budget for food, clothing, shelter (including utilities) and a small additional amount for other needs, e.g., household supplies, personal care, non-work-related transportation. It then proposed that family resources be defined as the sum of money income from all sources and the value of near-money benefits that are available to buy goods and services in the budget, minus expenses that cannot be used to buy these good and services. Thus, it did not recommend comparing all income to this more modest level—rather, it recommended excluding income that that was not available to purchase these basic goods and services, e.g., child care and work-related expenses, medical expenses, child support paid, and taxes.

Given the modest approach taken by the NAS panel, the result is a set of poverty thresholds that are somewhat higher than the official ones, but far short of the higher figures discussed above. Specifically, in 2005, when the official threshold for four was \$19,806, the NAS-based threshold calculated by the Census Bureau was \$20,708 if medical expenses were not counted in the threshold and \$22,841 if medical expenses were included in the threshold.<sup>12</sup> The threshold with medical expenses was based on three years of consumer expenditure data, updated to the threshold year, representing about 80 percent of median family expenditures for food, clothing, shelter, utilities, and medical care, with an additional allowance for other non-work related expenditures. The approximate breakdown for the components of the threshold was \$6624 for food, \$1370 for clothing, \$6395 for shelter, \$3198 for utilities, \$1599 for medical costs, and \$3655 for all other non-work-related costs.

Is the NAS approach a reasonable one? In my view, it is, but only if one recognizes that it does not purport to represent a “decent” living standard. It leaves out a considerable amount that most of us take for granted in our daily lives, and allows only a modest residual sum for the wide array of living costs that do not fall within the identified needs. It leaves out many of the cultural enrichment activities that parents would view as essential to healthy child education and development. The approach was developed at a time when the Internet was first coming into our awareness, so does not include costs for a family to own a computer or have Internet access. It does not explicitly provide room in the budget to save for education, or retirement, or home ownership, or future needs of children.

Moreover, the original NAS approach opted to treat medical costs, child care, and other work-related costs as deductions, viewing them as not available to meet the listed basic needs. An argument can be made that the costs of each should be included as part of the threshold instead and treated as comparable to other basic needs—certainly, many Americans would view access to needed child care and health care as basic needs. The Census Bureau now calculates NAS-based thresholds with and without medical expenses. Thus, other approaches could be considered, but any approach should ensure that it provides the internal consistency urged by the NAS.

### Measuring Poverty Under NAS Measures

Since the release of the NAS report in early 1995, a considerable amount of research and further study has been undertaken. While there may never be unanimity on any complex or controversial issue, many observers have commended the overall NAS approach, but there are still a number of questions on which researchers disagree, sometimes for conceptual reasons and sometimes because of data limitations. For example, many, though not all, would agree that it would be desirable to build geographical variation into the poverty measurement. However, there are sharp disagreements as to whether the data are adequate to do so. Many would agree that it would be important to build an adjustment for medical costs into the poverty measure, but there are disagreements as to whether it is better to build an allowance for medical costs into the threshold, subtract costs from countable income, or do some combination of the two. It is clear that continued work is needed.

<sup>11</sup> See <http://www.npr.org/programs/specials/poll/poverty/staticresults.html>.

<sup>12</sup> U.S. Census Bureau, *Poverty Thresholds for Two-Adult-Two-Child Family Following NAS Recommendations: 1999-2005*, available at [http://www.census.gov/hhes/www/povmeas/altmeas05/nas\\_povmeasures2005.xls](http://www.census.gov/hhes/www/povmeas/altmeas05/nas_povmeasures2005.xls)

Since the release of the NAS report, the Census Bureau has issued a set of valuable reports applying and refining NAS recommendations to provide alternative poverty measures.<sup>13</sup> The most recent tables, issued for 2005, show that at a time when the official poverty rate was 12.6 percent, the rate under NAS measures would have been between 12.5 percent and 14.2 percent, depending on how medical expenses and geographic adjustments are treated in the measure, and depending on whether the thresholds are computed using the Consumer Expenditure Survey (as recommended by the NAS panel) or by updating for inflation using the CPI-U.<sup>14</sup> Over time, under most NAS measurements, the numbers in poverty are consistently above the numbers under the official measures.<sup>15</sup>

In addition to affecting the numbers in poverty, NAS measures also affect rates for particular groups: poverty rates for married couples go up, while they go down for female-headed households; they go down for children and up for the elderly; they go up for whites, down for African-Americans, and their effect for Hispanics depends on which measure is used.<sup>16</sup>

In earlier years, the Census Bureau issued detailed reports presenting and analyzing the NAS tables. However, the last of these reports was issued June 2005. Most recently, the NAS tables for 2004 and 2005 were simply posted without narrative or press release and in a manner such that only specialists were likely to be able to interpret them.

Beginning in 2006, the Census Bureau has begun reporting a new series, in which the Census Bureau reports on the effects of various definitions of income: a “money income,” “market income,” “post-social insurance income,” and “disposable income” definition.<sup>17</sup> The broadest of the four, “disposable income” includes money income, imputed net realized capital gains, imputed rental income, noncash transfers, and subtracts imputed work expenses (but not child care) and taxes. It reports that using its disposal income measure, the poverty rate for 2005 is 10.3 percent—a level substantially below any of the NAS measures. Essentially, this happens because it is imputes income from home equity (even though a prior Census Bureau report had cautioned about taking such an approach without a corresponding adjustment to the poverty thresholds), and it does not follow other NAS recommendations to modify the poverty thresholds, count child care, or consider medical expenses.

### Recommendations for Next Steps

For at least the past thirty years, there have been discussions about the need to develop an improved approach to poverty measurement. While an active research and development agenda should continue, it is past time to replace the current measure. In my view, the NAS recommendations offer a valuable starting point for a better measure.

First, I recommend that Congress direct the Census Bureau to issue a report to Congress, within a specified time period, addressing the following issues:

- To what extent is it now feasible to replace the current measure of poverty with a measure drawn from the recommendations of the National Academy of Sciences panel?
- Are there data limitations that affect the ability to implement the NAS recommendations; if so, to what extent could those data limitations be addressed

<sup>13</sup> See Kathleen Short et al, *Experimental Poverty Measures, 1990–1997*, P60–205, (June 1999), available at <http://www.census.gov/prod/99pubs/p60-205.pdf>; John Iceland, *Poverty Among Working Families: Findings from Experimental Poverty Measures*, P20–203, (September 2000), available at <http://www.census.gov/prod/2000pubs/p23-203.pdf>; Kathleen Short, *Experimental Poverty Measures 1999*, P60–216 (October 2001), available at <http://www.census.gov/prod/2001pubs/p60-216.pdf>; Joe Dalaker, *Alternative Poverty Estimates in the United States: 2003*, P60–227 (June 2005), available at <http://www.census.gov/prod/2005pubs/p60-227.pdf>.

<sup>14</sup> U.S. Census Bureau, *Alternative Poverty Estimates Based on National Academy of Sciences Recommendations, by Geographic and Inflationary Adjustments: 2004 and 2005*, available at [http://www.census.gov/hhes/www/povmeas/altmeas05/nas\\_measures\\_2004\\_2005\\_comparison.xls](http://www.census.gov/hhes/www/povmeas/altmeas05/nas_measures_2004_2005_comparison.xls).

<sup>15</sup> U.S. Census Bureau, *Official and National Academy of Sciences (NAS) Based Poverty Rates: 1999 to 2005*, available at [http://www.census.gov/hhes/www/povmeas/altmeas05/nas\\_measures\\_historical.xls](http://www.census.gov/hhes/www/povmeas/altmeas05/nas_measures_historical.xls).

<sup>16</sup> U.S. Census Bureau, *Alternative Poverty Estimates Based on National Academy of Sciences Recommendations, by Selected Demographic Characteristics and by Region: 2005*, (2006), available at [http://www.census.gov/hhes/www/povmeas/altmeas05/nas\\_measures\\_2005\\_demog\\_and\\_region.xls](http://www.census.gov/hhes/www/povmeas/altmeas05/nas_measures_2005_demog_and_region.xls).

<sup>17</sup> U.S. Census Bureau, *The Effects of Government Taxes and Transfers on Income and Poverty: 2004* (February 14, 2006), available at <http://www.census.gov/hhes/www/poverty/effect2004/effectofgovtandt2004.pdf>; *The Effects of Taxes and Transfers on Income and Poverty in the United States: 2005*, P60–232 (March 2007) available at <http://www.census.gov/prod/2007pubs/p60-232.pdf>.

through improved data collection; and what would such improved data collection cost?

- In light of the research, experimentation and analysis of the twelve years since the NAS report was issued, are there particular recommendations that should be reconsidered or additional recommendations that should be considered in developing an improved poverty measure?

The Census Bureau should be encouraged to consult with members of the original NAS Panel and other experts in poverty measurement in the development of its report.

Second, it is unfortunate that the Census Bureau has seemingly relegated its NAS analysis to a set of web-only tables, and has departed from an NAS-based approach in its published narratives. I recommend that Congress encourage, and if necessary adopt legislation to direct the Census Bureau to resume fully reporting the NAS measures.

Third, at the same time that the poverty measure is improved, it would also be valuable for the federal government to begin regularly reporting a set of additional measures:

- **Making Ends Meet:** It seems clear that the amount of income a family needs to “make ends meet” or have a reasonably decent standard of living is an amount well above the current poverty line. Family budget research, polling data, median income data, and other research all suggest a level roughly twice the current poverty line, though with substantial geographic variation. It would be valuable to establish an ongoing research program and methodology for measuring this concept.
- **Outside the Mainstream:** International comparisons routinely rely on measuring the share of people below some percentage of median income, e.g., 50 percent. It is often treated as a measure of “relative poverty.” The virtue of such a measure is that it provides insight into the extent to which a share of the nation’s residents is living with incomes far outside of the social mainstream. In a recent UNICEF report, the United States ranked 24th of 24 nations on a measure of the share of children living in families with incomes below 50 percent of median income.<sup>18</sup> The federal government should track such a measure, and promote research to better understand the consequences of being in and growing up in relative poverty.
- **Asset Poverty:** In recent years, we have begun to see steadily increasing awareness of the importance of assets and asset disparities. One study estimated that in 2001, about 37.5 percent of households were “asset poor,” meaning they did not have enough liquid assets to live above the poverty line for three months.<sup>19</sup> We would benefit by developing good ongoing measures of assets and asset poverty.
- **Pre- and Post-Tax and Transfer:** As the nation moves to a measure of poverty that includes the effects of tax and near-cash benefits, it will be important to clearly distinguish pre-tax, pre-transfer poverty from post-tax, post-transfer. Drawing that distinction would make explicit the role that tax credits and liabilities and government benefits play in reducing pre-tax, pre-transfer poverty.

Finally, I want to highlight and underscore one last NAS recommendation. At present, a large number of government programs affecting individuals, communities, and states, determine eligibility or allocate funds on the basis of federal poverty guidelines. For some purposes, applying the revised threshold and measurement rules may be appropriate, but in other cases it would not be. For example, with a new threshold, a program might wish to adjust eligibility accordingly, or change the percentage or multiple of the poverty line at which individuals are eligible. Income-counting rules that are appropriate and feasible for Census Bureau estimates may not be appropriate for program eligibility determinations. Moreover, if adopting a new measure of poverty had direct implications affecting program costs and the allocation of billions of dollars in federal funds, it would likely paralyze any effort to modify the poverty measure. The NAS panel expressly recommended that agencies *consider* the use of the new measures for purposes of programs they administer, but not that the new rules be applied automatically when they do not further program

<sup>18</sup>UNICEF Innocenti Research Centre, *Child poverty in perspective: An overview of child well-being in rich countries, Report Card 7*, (2007), available at [http://www.unicef-icdc.org/publications/pdf/rc7\\_eng.pdf](http://www.unicef-icdc.org/publications/pdf/rc7_eng.pdf). Note that in 2005, 50 percent of median income for a family of four in the United States would have been \$35,166, as compared with the official poverty threshold of \$19,157.

<sup>19</sup>Robert Haveman and Edward N. Wolff, “The Concept and Measurement of Asset Poverty: Levels, Trends and Composition for the U.S., 1983–2001,” *Journal of Economic Inequality* 2 (2): August 2004.

objectives. Such an approach would be essential to efforts to advance a new and improved poverty measure.

Again, thank you for addressing these important issues.

Chairman MCDERMOTT. We are going to have to go and vote. We will be over there for about 5 minutes on this vote and then another 5-minute vote. I think we should be back about 5 minutes after eleven, and I would hope that the panel can all stay.

We will begin with the questions as soon as we come back. We thank you all for your participation and you have been a very good panel, and I think there are some things we want to get out of you before you get away. So, please wait. We'll see you then.

Ms. BERKLEY. Mr. Chairman, if I cannot be here, can I submit my opening statement?

Chairman MCDERMOTT. Sure.

[The opening statement of Rep. Shelley Berkley follows:]

Table 1. Census Bureau Definitions of Income.

| Income Sources                                  | Money Income | Market Income | Post-Social Insurance Income | Disposable Income |
|---|--------------|---------------|------------------------------|-------------------|
| <i>Nonmeans-tested Government Cash Benefits</i> |              |               |                              |                   |
| Social security and railroad retirement         | ✓            |               | ✓                            | ✓                 |
| Unemployment compensation                       | ✓            |               | ✓                            | ✓                 |
| Workers' compensation                           | ✓            |               | ✓                            | ✓                 |
| Veterans' payments (other than pensions)        | ✓            |               | ✓                            | ✓                 |
| <i>Means-tested Government Cash Benefits</i>    |              |               |                              |                   |
| TANF/AFDC/ADC                                   | ✓            |               |                              | ✓                 |
| Other cash public assistance                    | ✓            |               |                              | ✓                 |
| Supplemental security income                    | ✓            |               |                              | ✓                 |
| Veterans' means-tested pension                  | ✓            |               |                              | ✓                 |
| Earned income tax credit                        |              |               |                              | ✓                 |
| <i>Means-tested Government Noncash Income</i>   |              |               |                              |                   |
| Food stamps                                     |              |               |                              | ✓                 |
| Public or subsidized housing                    |              |               |                              | ✓                 |
| Free or reduced price school lunches            |              |               |                              | ✓                 |
| Free or reduced price school breakfasts         |              |               |                              |                   |
| WIC   |              |               |                              |                   |
| LI-HEAP   |              |               |                              |                   |
| <i>Medical Benefits</i>                         |              |               |                              |                   |
| Medicare  |              |               |                              |                   |
| Medicaid  |              |               |                              |                   |

*Notes:*

<sup>a</sup>Includes interest, dividends, rent, estates, trusts, royalties, etc.

<sup>b</sup>Excludes government retirement, survivor, and disability pensions and annuities.

Thank you. We will be back in 20 minutes, or so.

[Recess.]

Chairman MCDERMOTT. If the speakers will take their chairs again, we have 10 minutes before we are going to have to leave again. We are in a North Carolina four corners stall in the Congress and so we are going to have to dodge between votes.

My question, I guess, is this. If we do nothing, what is the problem, or is there a problem? If we are going to do something, what is the best way to go about doing it? Now, I listen to Mr. Besharov and others talk about the things that we add in. Or even Mr. Weller's idea of taking somebody with \$18,000 income and adding in costs and that brings them up to \$30,000; and, therefore, they are no longer in poverty. Then they would not qualify for the things that got them out of poverty.

I mean, that's kind of a catch-22, so what I am interested in is hearing from you, what is the best way for us to proceed with this if you think there is some compelling reason why we should do something? I know you don't think we need to or can do it, but we are sort of megalomaniacs in the Congress, so I think we can do anything.

Go ahead.

Mr. BESHAROV. Well, no. I think you should do things. I think that what you cannot do successfully is change "the official poverty line." We are not really talking about the poverty measure used for program eligibility. That is an entirely separate decision. I think those are key words: "entirely separate decision". The considerations that go into program eligibility, as you just pointed out, are very different from trying to keep track of economic or material well-being of low-income Americans.

Quickly, and then I will get off the floor. Here is what I think you should do in three easy steps. I don't think you can affect the official poverty measure without having a broad congressional consensus about raising spending across the board for means tested programs. Otherwise, you have got to disconnect the official poverty measure from every program that exists.

Chairman MCDERMOTT. Can I stop you there? Haven't we disconnected it now by using 200 percent of poverty all over the place?

Mr. BESHAROV. Yes and no.

Chairman MCDERMOTT. I mean, that is what I listened to you and I thought about my days in the State legislature and how Washington State was always pushing above the poverty line and no deed goes unpunished.

Mr. BESHAROV. Here is what I would say about that, but you are the pros. Programs are currently at a multiple of the poverty lines. You mentioned it is at a few hundred percent of the poverty line.

State and Federal grant programs that are formula driven, are often driven by the poverty measure. So, if the poverty measure is changed, then every Subcommittee, and then every Committee of the Congress has to disconnect, and redo it. Then, both houses of Congress have to agree.

Chairman MCDERMOTT. I understand the problems of politics. Here are some others. How do you think we should do it, because he does not basically think we should?

Now, you've got a minute.

Mr. GREENBERG. I think the key in moving forward is to say in doing a revision of the poverty standard and measurements, it does not automatically lead to changes affecting program eligibility or allocation of Federal resources. Sever the link between them and say for each individual program, for each Federal benefit that is allocated on the basis of the poverty line, that it will now be appropriate to make a judgment of how to proceed, but do not do it automatically.

Chairman MCDERMOTT. Yes?

Dr. RUGGLES. I would say that the main thing you want a poverty line for in terms of Federal programs is figuring out who you need to serve. Who do you need to serve? Who is in need?

Chairman MCDERMOTT. Okay, yes.

Dr. RUGGLES. So what you need is the best measure for that purpose, and in the long run that is going to help you design better programs. Worrying about how it does or does not affect existing programs in the short run isn't the first priority. You really ought to be looking at what you are trying to get to, not what is the short run effect.

In terms of the short run effect, we revise all of the other statistics we use for the government. The CPI has gone through a whole bunch of revisions done by Committee that have been at least as controversial as anything we are talking about for poverty, and it effects even more programs than the poverty line does.

Chairman MCDERMOTT. Are you then suggesting something in the Census Bureau? I don't know where that function is, but someplace that would function continually as an annual update, much as we do with the trustees on Medicare and Social Security, that same sort of thing.

Is that what you are talking about?

Dr. RUGGLES. Yes, something like that could be done; or, you could do what the Bureau of Labor Statistics does to update the CPI where they have a Committee that meets on a periodic basis, comes up with recommendations and then implements them. That kind of an approach where you have a built in periodic review, come up with recommendations, they get implemented.

Chairman MCDERMOTT. Does it require that in doing that you also say what their goal is? Do we have to set the goal or do we let the commissions do that?

Dr. RUGGLES. I think you can, to some extent, let the commission do that, but over all, I think that for policy-related purposes the goal ought to be hearing out who is in need.

Chairman MCDERMOTT. So, if you are going to deal with children's poverty, talk about what that is and then adjust the poverty line for whatever.

Dr. RUGGLES. Exactly.

Chairman MCDERMOTT. Thank you.

I want to go to my colleague.

Mr. WELLER. Thank you, Mr. Chairman.

First, I would just like to ask unanimous consent for the copy of H.R. 3243 along with the introduction statement in the record.  
Chairman MCDERMOTT. Without objection.  
[H.R. 3243 follows:]

Statement of Congresswoman Shelley Berkley  
Subcommittee on Income Security and Family Support  
Hearing on Measuring Poverty in America  
August 1, 2007

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I thank you Mr. Chairman for holding this hearing and I thank the witnesses for their testimony.

Congress oversees many programs that seek to aid our poorest citizens and give them a hand up to better their situation. If we hope to efficiently and effectively target limited resources it is vital that we have poverty measures that accurately reflect where poverty exists and who is experiencing it. The system used currently to determine poverty for the purposes of allocating federal aid such as Food Stamps, S-CHIP, Medicaid and low or no cost school meals has serious shortcomings. Even under this flawed system more than one in ten people in Nevada are living below the poverty line.

The rapid growth in southern Nevada over the last several years has led to an increase in the cost of living in the area, and a notable lack of affordable housing. Factors such as these are not adequately addressed in the current poverty measures. I can tell you that in Las Vegas you would need to earn much more than \$20,650—the current 2007 Federal Poverty Guideline for a family of four—to adequately house, provide transportation, feed, and clothe your family, let alone afford health care and other necessities.

I look forward to hearing the testimony of the witnesses and their recommendations as to how we can improve the current guidelines.

(Original Signature of Member)

110TH CONGRESS  
1ST SESSION**H. R.** 3243

To direct the Bureau of the Census to publish improved annual measures of family income for use in more accurately determining the extent of poverty in the United States and the anti-poverty effectiveness of means-tested benefit and tax programs, and for other purposes.

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IN THE HOUSE OF REPRESENTATIVES

Mr. WELLES of Illinois introduced the following bill; which was referred to the Committee on \_\_\_\_\_

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**A BILL**

To direct the Bureau of the Census to publish improved annual measures of family income for use in more accurately determining the extent of poverty in the United States and the anti-poverty effectiveness of means-tested benefit and tax programs, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the "Poverty Measurement  
5 Improvement Act".



1 **SEC. 2. IMPROVED MEASURES OF INCOME AND POVERTY.**

2 (a) **IN GENERAL.**—In order to more accurately deter-  
3 mine the extent of poverty in the United States, and the  
4 anti-poverty effectiveness of means-tested benefit and tax  
5 programs, the Bureau of the Census shall publish annually  
6 statistics on levels of family income in the United States.  
7 Such statistics shall be based on at least each of the fol-  
8 lowing:

9 (1) **FULL BENEFITS POVERTY INCOME.**—This  
10 income measure shall be equal to the sum of partial  
11 benefits poverty income and noncash benefits (in-  
12 cluding food stamps, housing subsidies, the actuarial  
13 value of health coverage, and any other State or  
14 Federal means-tested benefits) attributable to the  
15 members of the household involved, including non-re-  
16 lated members.

17 (2) **FULL BENEFITS AND TAXES POVERTY IN-**  
18 **COME.**—This income measure shall be equal to full  
19 benefits poverty income, increased by State and Fed-  
20 eral earned income tax credits, refundable child  
21 credits, and any other refundable tax credit, and de-  
22 creased by State and Federal income and payroll  
23 taxes, attributable to the members of the household  
24 involved, including non-related members.

25 (b) **DEFINITION OF PARTIAL BENEFITS POVERTY**  
26 **INCOME.**—For purposes of this section, the term “partial

1 benefits poverty income” means money income, as defined  
 2 by the Bureau of the Census for purposes of any survey  
 3 relating to income or poverty in the United States.

4 (c) RATES AND OTHER DATA.—The Bureau of the  
 5 Census shall use the measures of income described in  
 6 paragraphs (1) and (2) of subsection (a) to produce cor-  
 7 responding tables and graphs showing for each year the  
 8 following (and related data):

9 (1) The partial benefits poverty rate.

10 (2) The full benefits poverty rate.

11 (3) The full benefits and taxes poverty rate.

Mr. WELLER. Thank you, Mr. Chairman, and thank you for this hearing.

Chairman MCDERMOTT. I am glad you put it in, because I think we need to have some things on the table to start talking about.

Mr. WELLER. Absolutely, you have got to have ideas to discuss them, right? I am sorry. I apologize to our witnesses today for the interruptions here. As a member of the minority party, all we are asking for is the opportunity to offer amendments, which is normally a part of the legislative process. But we are denied that opportunity on the floor today on the SCHIP legislation. In the Committee on Ways and Means, we did have that opportunity, but the Commerce Committee shut them down. So we would like just to have the opportunity that, when we were in the majority, we gave the minority at that time.

Mr. Besharov, you are the contrarian today amongst the group. I've got a copy of a study that was put forward by the Center on Budget and Policy Priorities, a left of center group that usually advocates expansion of various government programs. They noted in 2003 that the earned income tax credit directly lifted 2.4 million children in working families above the poverty line. For children, before counting the EITC, 12.6 million were in poverty and after counting the EITC that number dropped to 10.2 million. In that study their measure of poverty counted food, housing, and energy assistance benefits as income and subtracted income and payroll taxes.

As a share of antipoverty benefits, is the portion of antipoverty benefits that are currently not included in income when we determine the poverty level rising or falling?

Mr. BESHAROV. It has risen substantially in the last thirty years. It rose a great deal in the last six, and my guess is that it will continue to rise. That study, by the way, is typical of what many researchers do. They use the current poverty line, left and right, and count all these things that we don't otherwise count. This is not to say that material needs no longer exist, but we should see whether, against some objective benchmark, we've made progress over the last five, ten or forty years.

What the Center on Budget Priorities report did with the Joint Economic Committees, Democrats, was show that these Federal programs reduced measured poverty. That is an important part of a political debate, and that is why I have taken a quick look at your bill. I think something like that is tremendously important. There are some Census Bureau people here, who have started making that distinction, by just showing the impact of Federal aid to low-income people. That is, I think, a central part of understanding how well the government is doing and what is left to be done.

Chairman MCDERMOTT. You know, if we continue to count, not count means tested benefits, do you believe the official poverty rate would actually be more inaccurate over time?

Mr. BESHAROV. There are many things that are making the official poverty rate an inaccurate measure of where we were in 1968. I wanted to make the distinction. I agree with my colleagues here that you could do a lot of things to make this measure better.

But there are many things that make the current measure inaccurate. I don't think it measures inflation well. It does not deal with many forms of income that low-income Americans receive. The problem, I think, will fester and get worse, if we do increase, for example, the EITC as has been proposed for single people. That would have a major impact on their poverty status and official measure would never capture it.

Mr. WELLER. My Chairman slipped me a note that says we have 5 minutes before the vote ends on the floor, so go as long as you want, he said. So, I guess that is a reminder that I need to wrap up.

You know, the legislation that I have offered, I would note, does not determine the eligibility for benefits. It sets in place three formulas for determining the level of poverty that should be part of the discussion as we determine how can we be more accurate.

Since we are out of time, I do want to ask each of the witnesses to take a look at the legislation introduced as part of this discussion. I welcome your ideas and my door is open to discuss them.

So, thank you, Mr. Chairman.

Chairman MCDERMOTT. Thank you, Mr. Weller.

I want to thank all of the witnesses. My view of this is there is no perfect answer otherwise it would have been done a long time ago. So I appreciate that not all the good ideas in the world come from the position politically where I am, nor where Mr. Weller is. Ultimately, I think in order to have some consensus as described here, there has got to be consensus in the Congress and it has got to be reached by us working together on this issue.

I appreciate all of you coming, giving your ideas. I suspect staff will be back from both sides to find out what you think of his bill and whatever we put out, and we thank you very much for coming.

Thank you.

[Whereupon, at 11:25 a.m., the hearing was adjourned.]

[Submissions for the record follow:]

**Statement of Richard Alarcón, Los Angeles, California**

Chairman McDermott and members of the Sub-Committee on Income Security and Family Support, it is my distinct honor and pleasure to present this testimony today. I would like to thank the Sub-Committee for holding a Hearing on Measuring Poverty in America and I appreciate the opportunity to address the body on the issue. My thanks and congratulations go to Chairman McDermott for his work and commitment to tackling the great problem of poverty in our nation.

Ending Poverty has been a major theme of my elected life. As a California State Senator, I created and was Chairperson for the Select and the Joint Committee on Creating a Master Plan to End Poverty in California. While there, I worked with hundreds of groups and advocates as we put together a draft of a Master Plan to End Poverty in California.

As an Assemblymember, I introduced Assembly Bill 56 (2007) to create the position of "Secretary on Poverty" for California. The Secretary on Poverty would be an advisor to the Governor and the Legislature on issues related to poverty and the affect legislation will have on poverty in the state of California. AB 56 is now a two-year bill and is being carried by another member, as I was recently elected to the Los Angeles City Council.

Now that I have returned to the City Council, ending poverty continues to be a top priority. On the day that I was sworn in, I introduced a motion to create the Ad Hoc Committee on Ending Poverty in Los Angeles. I am Chair of this Ad Hoc Committee, and will be working to present practical solutions for tackling the devastating effects of poverty in our City.

Through my years in elected office, I have taken several actions specific to updating the Federal Poverty Guidelines. While in the Senate, I introduced Senate Joint Resolution 15 (SJR 15, 2004), which called on the Federal Government to update the Federal Poverty Guidelines to a more reasonable standard based on regional cost of living. (*Attached document #1*) This resolution is often cited when groups look at what various states are doing on updating these guidelines.

More recently, I introduced a resolution to the Los Angeles City Council supporting an update of the Federal Poverty Guidelines and asking all 2008 presidential candidates to take a position on this issue. (*Attached document #2*) Of the four top Democratic candidates, two have expressed support to change the Federal Poverty Guidelines and two are considering their position and have expressed their willingness to look at the subject. Ultimately, I'm hopeful that updating the Federal Poverty Guidelines will be included as a central theme of the national platform during the 2008 Presidential election.

As you can see, ending poverty is a lifetime commitment of mine. Even more importantly, for years I have been in support of updating the way that we measure poverty as a nation, advocating for change at both the state and city levels.

It is my strong belief that we cannot combat poverty without having a better and more accurate understanding of what it truly takes to economically survive in this country. Currently, we have the same base calculation of poverty across the nation, with the exception of Alaska or Hawaii. And while it may be possible to barely get by without additional assistance on \$20,000 for a family of four in a very small number of areas of the nation, there is no way that a family can survive on that income in most of the country, especially in many of our urban areas.

Life for working people has changed drastically since the Federal Poverty Guidelines were originally developed in 1963-1964 by Mollie Orshandky of the Social Security Administration. We are at a point where it is critical that we re-visit how we as a nation calculate poverty and one's ability to provide for basic needs.

The Federal Poverty Level calculation is based on the cost of food for a family of a given size multiplied by three. That calculation was reasonable in the 1960s, but currently food costs amount to roughly one sixth of a family's budget to cover basic needs, with housing and health care being a much bigger percentage of cost for working families now.

Having this kind of one size fits all measurement does not accurately reflect reality. Just look at the median cost of a house in different areas. For instance, the median home cost in Huntsville, Alabama is \$97,300, the median home price in Des Moines, Iowa is \$145,500 and the median home price in Los Angeles, CA is \$502,678. And that is just housing. To truly understand the number of people we have living in poverty, a regional approach must be adopted to better reflect true costs for living.

Finally, a new poverty level must take into account family size and composition. Everyone who has been a father or mother knows that the cost of raising an infant is very different from that of a teenager. Currently, the Poverty Guidelines just look at a family of four – not recognizing if it includes two working adults, or a single mother and three infants or some other family make-up. Again, the one-size fits all approach in family composition also fails to recognize the realities of today's families.

Though I leave the decisions on the final formula to be used to policy experts, Opportunities for Women's Self-Sufficiency Standard is a sensible example of how costs can be calculated on a county-by-county basis. This Self-Sufficiency Standard includes the cost of housing, childcare, food, transportation, health care, taxes and miscellaneous expenses and takes into account regional cost differences. It also looks at the composition of the family to accurately determine cost of living.

The truth is that we are far from having Poverty Guidelines that reflective of today's society. Poverty needs to be viewed not as an arbitrary number like the current Federal Poverty Guidelines, but as a measure of what it takes for a family or individual to be self-sufficient.

It is important that we update the Federal Poverty Guidelines because many of the programs that tax dollars support use the Federal Poverty Guidelines as the basis for

determining eligibility. Some programs are adjusted to include people and families 200% or 300% of poverty guidelines, or some percentage greater than the current standard, because there is need for assistance even when families are making more than the official poverty guideline. These adjustments are relatively arbitrary when compared to a calculation that is based on regional cost of living differences. As it stands, the current one size fits all system is wasteful and unbalanced.

Updating the Federal Poverty Guidelines will mean that our federal, state and local governments can accurately calculate what it takes to be self-sufficient and make appropriate decisions on policy and programs based on these facts. Updating the Federal Poverty Guidelines help the federal government reduce waste and increase efficiency within our programs, targeting decisions based on actual need, so funds are used as effectively as possible. This will also ensure the correct balance of resources distributed, targeting those areas and populations in greatest need based on the updated, more accurate standard.

The Federal Poverty Guidelines are used to determine eligibility for food assistance programs, rent subsidy programs, health insurance assistance programs, free lunches for school children and for other expenses that many working families find themselves struggling to cover. Hard-working men and women should be afforded the dignity to provide the basics for their families – a roof over their heads, access to quality health care, food and clothing for their children. Our senior citizens should not have to cut their pills in half because they cannot afford their full prescriptions. Parents should not have to choose between health insurance or dinner.

I applaud the Subcommittee on Income Security and Family Support for holding the Hearing on Measuring Poverty in America. I strongly encourage the Committee to support updating the Federal Poverty Guidelines to a standard that calculates what it actually takes a family to survive in a given area ,so the government can most effectively utilize resources.

Additionally, I invite Congressman McDermott and the other members of the Subcommittee on Income Security and Family Support to come to Los Angeles to hold a hearing on the Federal Poverty Level or another poverty-related issue. The leadership and commitment shown by this Committee is desperately needed if we, as a nation, are to ever prioritize the reducing and ultimately ending Poverty in America.

It is impossible for the Federal Government to target policies in the dark of night. We must continue to shed light on the issue of updating the Federal Poverty Guidelines, just as the Subcommittee on Income Security and Family Support is doing by holding this hearing on Measuring Poverty in America. With updated Federal Poverty Guidelines, we can more efficiently, effectively and appropriately direct the resources aimed at helping all Americans become self-sufficient and reach the American Dream.

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**Attachments:**

**Senate Joint Resolution 15**

California State Senate

Introduced: 2004

Introduced by Senator Richard Alarcón

[http://info.sen.ca.gov/pub/03-04/bill/sen/sb\\_0001-0050/sjr\\_15\\_bill\\_20040409\\_chaptered.pdf](http://info.sen.ca.gov/pub/03-04/bill/sen/sb_0001-0050/sjr_15_bill_20040409_chaptered.pdf)

**Motion to Support Updating the Federal Poverty Level**

Los Angeles City Council

Introduced: June 13, 2007

Introduced by Los Angeles City Councilmember Richard Alarcón

[http://clkrep.lacity.org/councilfiles/07-0002-s144\\_reso\\_6-13-07.pdf](http://clkrep.lacity.org/councilfiles/07-0002-s144_reso_6-13-07.pdf)

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**Senate Joint Resolution No. 15**

**RESOLUTION CHAPTER 31**

Senate Joint Resolution No. 15—Relative to the federal poverty level.

[Filed with Secretary of State April 9, 2004.]

LEGISLATIVE COUNSEL'S DIGEST

SJR 15, Alarcon. Federal poverty level.

This measure would memorialize the President and Congress of the United States to ensure that the United States is working to meet the basic needs of all families, to begin a process to better calculate the federal poverty level, and to use existing models to calculate poverty, including geographical costs of living.

WHEREAS, The federal poverty level was created by Congress in the 1960s to determine the number of people living in poverty; and

WHEREAS, The Census Bureau notes that the federal poverty measure is a statistical yardstick rather than a complete description of what people and families need to live; and

WHEREAS, The federal poverty level is calculated by multiplying basic food consumption by three; and

WHEREAS, The federal poverty level implies a demographic model of a two-parent family with one parent in the workforce and one parent at home; and

WHEREAS, The federal poverty level does not include the different cost of living across states, counties, and cities; and

WHEREAS, The cost of housing, health care, transportation, child care, and essential services, such as water, electricity, and gas are not included in calculating the federal poverty level; and

WHEREAS, The current 2002 federal poverty level is defined by a family unit of one with an income of \$8,860, a family unit of two with an income of \$11,940, a family unit of three with an income of \$15,020, and a family unit of four with an income of \$18,100; and

WHEREAS, The 2000 federal census reports that 14 percent of Californians live at the federal poverty level; and

WHEREAS, Dr. Diana Pearce of the University of Washington, with Wider Opportunities for Women and Californians for Family Economic Self-Sufficiency (CFESS), a project of the National Economic Development and Law Center, have developed the California Self-Sufficiency Standard, which uses major budget items and varies geographically; and



WHEREAS, Approximately 30 percent of Californians do not earn enough to pay for basic needs, according to a study utilizing the California Self-Sufficiency Standard; and

WHEREAS, It is in the best interest of the state to ensure that families have enough income to meet their basic needs; and

WHEREAS, A more accurate calculation of poverty would assist in California's effort to end poverty; and

WHEREAS, Many California families are struggling with inadequate resources to meet their families' basic needs, yet many of these families do not receive any assistance. Although often described as "falling between the cracks," this group is neither small nor marginal as that phrase suggests, but, rather, is a substantial proportion of our society, and yet little is known about them; and

WHEREAS, A more accurate calculation of the federal poverty level would redirect more federal funds to states; now, therefore, be it

*Resolved by the Senate and Assembly of the State of California, jointly,* That the Legislature respectfully memorializes the President and Congress of the United States to do all of the following:

(1) Ensure that the United States is working to meet the basic needs of all families.

(2) Begin a process to better calculate the federal poverty level to ensure that all states receive an adequate representation of the number of families who are struggling to meet their basic needs.

(3) Use existing models to calculate poverty, including geographical costs of living that take into account expenses such as housing, child care, health care, and transportation ; and be it further

*Resolved,* That the Secretary of the Senate transmit copies of this resolution to the President and Vice President of the United States, the Speaker of the House of Representatives, the Majority Leader of the Senate, and to each Senator and Representative from California in the Congress of the United States.

INTRODUCE  
RESOLUTION RELATIONS

WHEREAS, 4.8 million Californians, or 13.3 percent of the state population, have income levels below the Federal Poverty Level threshold, which is \$20,650 for a family of four; and

WHEREAS, the Federal Poverty Level was originally developed in 1963 by Mollie Orshansky of the Social Security Administration. Orshansky took the dollar costs of the U.S. Department of Agriculture's economy food plan for families of three or more persons and multiplied the costs by a factor of three; and

WHEREAS, the Federal Poverty Level does not take into account regional differences in the cost of living, including factoring in the regional cost of housing, child care, food, health care, transportation, miscellaneous other costs and taxes; and

WHEREAS, the Self-Sufficiency Index, an alternate form of calculating the levels of poverty in a region, does take into consideration these additional factors, as well as fluctuating according to the number of and age of children in the family; and

WHEREAS, according to the Self-Sufficiency Index, a family of four in Los Angeles needs to earn at least \$54,000 to be "self-sufficient," which means making enough money to cover basic needs; and

WHEREAS, in the City of Los Angeles, one out of three families does not make enough money to be self-sufficient; and

WHEREAS, according to the Tax Foundation, for every \$1.00 that the state of California and California taxpayers send to the Federal government, only 78 cents are returned to California from the Federal government; and

WHEREAS, changing the formula of how poverty is calculated from the current Federal Poverty Guidelines to a regionally-based formula, such as the Self-Sufficiency Index, would allow the State of California to increase the amount of Federal funds that come to the state, county and local programs and would bring in a more fair share of funds to the state; and

WHEREAS, the issues affecting the State of California are often ignored during national debates, but candidates are not shy about raising money in our state; and

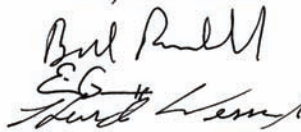
WHEREAS, on December 10, 2007 the Democratic candidates for President of the United States will be meeting in Los Angeles to debate issue, and on January 30, 2008 the Republican candidates for President of the United States will be meeting in Los Angeles to debate issues;

NOW, THEREFORE, BE IT RESOLVED, that the City of Los Angeles supports changing the guidelines for determining poverty from the antiquated "Federal Poverty Guidelines" to a formula that takes into account regional differences in cost of living, such as the Self-Sufficiency Standard; and

BE IT FURTHER RESOLVED, that the City of Los Angeles requests that each one of the candidates running in the 2008 Presidential Primary go on record as to whether or not they support updating the Federal Poverty Guidelines and invites the candidates to address the Los Angeles City Council's Ad Hoc Committee on Ending Poverty in Los Angeles on issues of poverty in the city of Los Angeles, state of California and the United States as a whole.

PRESENTED BY   
RICHARD ALARCÓN  
Councilmember, 7<sup>th</sup> District

SECONDED BY:  
JUN 13 2007  
EG 07-0002-5144





**Wider Opportunities for Women**

**Written Testimony Submitted to the Subcommittee on  
Income Security and Family Support**

**Committee on Ways and Means  
U.S. House of Representatives**

**Hearing on**

**Measuring Poverty in America  
August 1, 2007**

**Submitted by Joan Kuriansky, Executive Director,  
Wider Opportunities for Women**

Mr. Chairman, members of the Subcommittee, I am pleased to submit testimony to the Subcommittee on Income Security and Family Support of the Ways and Means Committee. I am Joan Kuriansky, Executive Director of Wider Opportunities for Women (WOW).

Policy makers and the public are increasingly asking why so many Americans come up short as they struggle to make ends meet. To answer that question and identify strategies to help these families, WOW launched the FESS Project in the mid 90's. During this period, WOW, piloted a new geographically-based measure of economic security, the Self-Sufficiency Standard,<sup>1</sup> to reflect the true costs of living for working families that is based on the realities of today's lifestyles. Today, the Self-Sufficiency Standard has been developed and is utilized in 35 states and the District of Columbia. It has been drawn on by other states and national organizations and think tanks<sup>2</sup> in their efforts to establish a more relevant and credible measure to use in making policy and program decisions. Recently WOW and its national research partner developed an income adequacy measure for seniors: the Elder Standard™ index<sup>3</sup> that will be in computed for the entire country by 2012.

Across America a growing number of working families and seniors are struggling to stretch their wages and savings to meet rising costs for basic necessities. At the same time, public assistance from federal, state and local resources are dwindling. These trends give new urgency to the question of economic independence beyond the poverty line. Although many of these families and seniors are not poor according to the official poverty measure, their incomes are inadequate to meet the most minimal needs. Today, WOW is working with organizations throughout the country to use the Self-Sufficiency Standard to help policy makers and individuals answer the question of how to *measure* the circumstances and obstacles facing low-income families trying to become economically self-sufficient.

The Self-Sufficiency Standard provides a conceptual framework as well as real numbers to address a range of policy issues: the kinds of jobs, education, training, work supports, retirement savings, and income assistance needed to make ends meet given the cost of living in particular local economies and depending on the composition of the family.

The Self-Sufficiency Standard serves as an alternative to the federal poverty level. Currently, the federal poverty level is used to guide a host of federal and state policies and to set eligibility thresholds. And it has inadvertently and inappropriately been interpreted to define income adequacy. This is damaging for a number of reasons, but perhaps one no greater than that the federal poverty level is a flawed measure, based on assumptions about costs and family structure that are completely out of date with the social and economic realities of today's families. For instance, the official poverty measure was developed in 1964 when there were many fewer single heads of household and many fewer mothers who worked outside the home and needed to pay for child care.

#### **Why is the Federal Poverty Level (FPL) Inadequate?**

The inability of the official federal poverty measure to give a realistic picture of what it takes to make a living in today's society has been well documented. We are pleased that the hearing today will shed additional light on the subject. WOW is particularly concerned about the following deficiencies inherent in the current federal poverty level (FPL): The measure:

<sup>1</sup>The Standard was developed by Dr. Diana Pearce who was at that time Director of the Women and Poverty project at WOW. It was created as a geographically specific, family-type specific model. It is calculated for 70 different family types in each county in a given state.

<sup>2</sup>For instance, the National Center on Children and Poverty has drawn on the Self-Sufficiency Standard in the development of its matrix presented today.

<sup>3</sup>In the past two years, we have joined with the Gerontology Institute of the University of Massachusetts to develop a similar measure, the Elder Standard™ index that takes account of differences in health and housing status for persons aged 65 and over.

- Is based on the cost of a single item, food, not on a market basket of basic needs, and uses the false assumption that food represents one-third of a family's budget.<sup>4</sup>
- Is computed nationally, thus does not capture the wide range of housing and other cost differentials across the country;
- Uses the implicit demographic model of the two-parent family with a stay-at-home wife. Today the likely scenario is that both are parents working.
- Does not distinguish between those families in which the adults are employed and those in which the adults are not employed.
- Does not recognize the impact of care giving for children and does not take into account the age of children in a family.
- Assumes that if the family has one adult household member, that member does not work. In 2003, 69.8 percent of single mothers were in the labor force.
- Establishes an official poverty threshold that is also lower for elders, reflecting an inaccurate assumption that elders need less to live on than younger people.
- Does not vary by seniors' age, health, or life circumstances,

#### **The Self-Sufficiency Standard: An Alternative to the FPL**

The Self-Sufficiency Standard measures how much income is needed for a family of a certain composition in a given place to adequately meet its minimal basic needs *without public or private assistance*. The Standard is designed as a national measure, with a specific methodology that is tailored to the costs of each state and county within that state.

The Self-Sufficiency Standard:

- Assumes that all adults in the household work full-time and, thus, have work-related expenses such as taxes, transportation and child care when children are present.
- Assumes the employer provides employee and dependents' health insurance and uses average premiums and out-of-pocket expenses
- Distinguishes by family size and type. The Standard takes account of differing costs not only by family size and composition (as does the official poverty measure), but also by the ages of children. While food and health care costs are slightly lower for younger children, child care costs can be much higher, particularly for preschool children. The Standard contemplates 70 different family types establishing different categories for infants, preschooler, school-age children and teenagers.

#### **Seven Categories of Expenses**

The Standard measures seven categories of expenses using scholarly and credible federal and state data sources. The Standard does not rely on the cost of a single item, such as food, to establish a ratio against which to calculate the total family budget. The Self-Sufficiency Standard is based on the cost of each basic need by county – food, housing, health care, child care, transportation and taxes – determined independently using official and otherwise publicly available data.

The Self-Sufficiency Standard nets out all taxes, including state and local sales and use taxes, payroll tax, federal, state and local income taxes, along with the Earned Income Tax Credit, Child and Dependent Care Tax Credit and Child Tax Credit. After all taxes and basic needs are accounted for, we add 10 percent for miscellaneous expenses such as clothing, phone, and household goods.

This is a minimal amount and produces a bare bones budget that does not take into account entertainment, a vacation or eating out. It does include funds for one time purchases (e.g. furniture, appliances or a car)

<sup>4</sup> The findings of the Self-Sufficiency Standard suggest that, on average, food costs represent between 10 and 19 percent of the budget for one adult, a pre-schooler and an infant.

The Standard does not build in costs related to savings for a security deposit, down payment, emergencies, retirement and college or debt repayment that can be essential in today's economy.

#### Cost Components of the Self-Sufficiency Standard

To factor in actual costs, the Self-Sufficiency Standard uses such data as HUD's Fair Market Rent, the USDA Low-Cost Food Plan, and sub-state market rates for child care published by state welfare agencies. Transportation costs are figured using data from state and local transportation departments, the National Association of Insurance Commissioners, the American Automobile Association, and the IRS mileage allowance. Since families cannot be truly self-sufficient without health insurance, employer-sponsored coverage is assumed as the norm for full-time workers. For the family's health insurance premium and out-of-pocket costs, we rely largely on data from the Medical Expenditure Panel Survey (MEPS).<sup>5</sup>

#### The Real Cost of Living in One County: Seattle-King County, WA

For each state, county-by-county tables with 70 different family types show the cost of each basic budget item and the hourly, monthly and annual wage needed to achieve self-sufficiency. The following table is for King County, WA. In 2006, the State of Washington Self-Sufficiency Standard was \$38,179 for a family of one parent, one infant and one preschooler, **more than double** the official poverty threshold of \$15,735 for the same family.

| 2006 Self-Sufficiency Standard for Four Family Types<br>King County (Seattle), Washington |           |                               |  |  |
|---|-----------|-------------------------------|--|--|
| Monthly Costs   | One Adult | One Adult, One<br>Preschooler | One Adult, One<br>Preschooler,<br>One School age | Two Adults,<br>One<br>Preschooler,<br>One School age |
| Housing   | \$764     | \$919                         | \$919  | \$919  |
| Child Care  | \$0       | \$815                         | \$1,259  | \$1,259  |
| Food  | \$212     | \$320                         | \$478  | \$658  |
| Transportation  | \$54      | \$54                          | \$54   | \$108  |
| Health Care   | \$83      | \$261                         | \$278  | \$322  |
| Miscellaneous   | \$111     | \$237                         | \$299  | \$327  |
| Taxes   | \$194     | \$462                         | \$578  | \$550  |
| Earned Income Tax Credit (-)  | \$0       | \$0                           | \$0  | \$0  |
| Child Care Tax Credit (-)   | \$0       | -\$60                         | -\$100   | -\$100   |
| Child Tax Credit (-)  | \$0       | -\$83                         | -\$167   | -\$167   |
| <b>Self-Sufficiency Wage</b>  |           |                               |  |  |
| Hourly per adult  | \$8.06    | \$16.62                       | \$20.45  | \$11.01  |
| Monthly   | \$1,418   | \$2,925                       | \$3,599  | \$3,876  |
| Annually  | \$17,014  | \$35,094                      | \$43,185   | \$46,513   |

<sup>5</sup> A complete discussion of data sources and methodology for the Self-Sufficiency Standard can be found on WOW's Website at: <http://www.sixstrategies.org/includes/productlistinclude.cfm?strProductType=resource&searchType=type&strType=self-sufficiency%20standard> and clicking the report for any state.

### Coming Up Short

The Self-Sufficiency Standard helps illustrate the critical nature of federal programs under the jurisdiction of this committee, and others, as work supports – publicly funded income support and services that help fill the gap between a low wages and a level of self-sufficiency. In an examination of work supports in ten communities for a parent, one infant and one preschooler,<sup>6</sup> WOW found that welfare leavers' wages covered only 30 percent of the Self-Sufficiency Standard. A minimum wage job at \$5.15 per hour brought the level to 34 percent. On average across the communities, a single mom had to work 3 full time minimum wage jobs at a time if she were to meet minimal basic needs.

When work supports are available and accessible, they can serve as a helpful bridge toward economic independence for working families. Earning \$12 an hour and receiving child-care assistance can cover 88 percent of a parent's costs. At the same time, even when work supports are in place, many families still cannot make ends meet. Where you live makes a difference. How states package work supports can dramatically increase one's ability to make ends meet or make almost no difference at all.

### How Many Live Below the Self-Sufficiency Standard?

Each year when the Census Bureau releases poverty data, as it will at the end of this month, analysts go to work crunching the numbers to tell us how many people of different racial, ethnic, age and household types are living on incomes no more than three times the cost of food. How much more relevant such analyses would be to policy makers if they told us how many people cannot make ends meet. Currently, demographic studies of self-sufficiency are available for California<sup>7</sup>, Massachusetts<sup>8</sup>, Colorado<sup>9</sup>, and Connecticut using the Self-Sufficiency Standard.

In California, for example, about 30 percent of households do not have incomes to cover basic costs.<sup>7</sup> More than half of households with a child under the age of six have inadequate incomes, and one out of five households with two working adults cannot meet basic needs. In Colorado, one out of five households is below the Self-Sufficiency Standard.<sup>9</sup>

With census data and the Self-Sufficiency Standard, a comparison of poverty versus "self-sufficiency" can be made in each state. For example, according to the U.S. Census Bureau in 2005, 14.8 percent of New York State lives in poverty; below \$15,735 for a family of three. The self-sufficiency standard for New York State shows that a family of three needs \$39,461 to make ends meet. Approximately, 28.5 percent of families from New York earn less than the median Self-Sufficiency Wage. This shows that almost 1 in 3 families in New York are living below a Self-Sufficiency Wage.<sup>10</sup>

### Uses of the Self-Sufficiency Standard as an Alternative to the FPL

Today, more than 2,000 local and state agencies and a variety of organizations are part of WOW's national Family Economic Self Sufficiency network. FESS partners include workforce development

<sup>6</sup> *Coming Up Short: A Comparison of Wages and Work Supports in 10 American Communities*. Wider Opportunities for Women, 2006, <http://wowonline.org/docs/dynamic-CTTA-43.pdf>.

<sup>7</sup> "The Bottom Line: Setting the Real Standard for Bay Area Working Families", United Way of the Bay Area, September 2004 and "Overlooked and Undercounted", by Diana Pearce with Rachel Cassidy, Edited by Aimee Durfee and Maureen Golga, June 2003. Both reports are available at the National Development and Law Center website: <http://www.nedlc.org>

<sup>8</sup> "The Self-Sufficiency Standard: Where Families Stand", by Jean Bacon, Ph.D. and Laura Henze Russell with Diana Pearce, Ph.D., January 2000 and "Dudley Families First: A Framework for Economic Self-Sufficiency", by Jean Bacon, Ph.D. and Laura Henze Russell with Joan Tighe and Sheclah A. Feinberg, March 2005. Both reports are available at the Crittenton Women's Union website: <http://www.fixeworkthrive.org>

<sup>9</sup> "Overlooked and Undercounted: Struggling to Make Ends Meet in Colorado", by Diana Pearce, Ph.D., March 2007. View full report at Colorado Center for Law and Policy: [http://www.cclponline.org/ccsl/documents/CCLPBooklet\\_FINAL.pdf](http://www.cclponline.org/ccsl/documents/CCLPBooklet_FINAL.pdf)

<sup>10</sup> "2005 State Comparisons of Poverty and Self-Sufficiency", August 2006. Wider Opportunities for Women: (insert link)

boards, women's commissions, community action agencies, child advocates, job training programs, welfare rights groups, and state fiscal policy organizations. They have in common use of the Self-Sufficiency Standard framework to design, conduct, and advocate for programs and policies that move low-income families toward economic independence.

#### **Self-Sufficiency Standard in Federal Legislation**

The concept of self-sufficiency is embedded in several federal laws. Only recently, has it been recognized legislatively in a way that establishes the potential for its use as an outcome measure. The Carl D. Perkins Career and Technical Education Act of 2006 includes "self-sufficiency" in several sections. With these provisions in place there is truly muscle in the goal of encouraging states and localities to meet local programming and community needs while leading their students toward the goal of economic independence<sup>11</sup>. In the structuring of career and technical education programs, state and local policies can focus resources on preparing students for high-wage, high skill careers. The most significant and most utilized Self-Sufficiency reference defines eligibility for intensive services under the federal Workforce Investment Act.<sup>12</sup> During the 2006 reauthorization process for WIA, the Senate passed legislation expanding the use of self-sufficiency in provisions relating to goals, client counseling, sector projects, and reporting. In addition, the bill offered a definition of self-sufficiency consistent with the standard used by WOW.

Additionally, WOW's Self-Sufficiency Standard is a recommended tool within federal program implementation including in the Community Service Block Grant program<sup>13</sup> and in the Family Self-Sufficiency (FSS) program of the Department of Housing and Urban Development. The FSS program helps low income families in public housing and the housing voucher program build assets and make progress toward self-sufficiency and homeownership. State and local level administrators of the program use the Self-Sufficiency Standard to define this goal for their families and gauge success.

#### **State Legislation and Implementation**

States have found their state-specific Self-Sufficiency Standard a valuable tool because of the county specific nature of the information. Many states have put Self-Sufficiency Standards to official use. In 1998, Connecticut became the first state to require the calculation of a self-sufficiency standard by law. In 2001, the state called for the measure to be recalculated biannually. Since then, Hawaii, Illinois and West Virginia have adopted a state self-sufficiency standard by state legislation. The Wyoming Governor's Planning Office supported development of a standard for the state and subsequently created an online Self-Sufficiency Calculator. Fourteen state Workforce Investment Boards<sup>14</sup>—have defined and implemented the concept of self-sufficiency for economic and workforce development purposes.

<sup>11</sup> The term self-sufficiency is located in sections of the bill for additional indicators of performance, local plan for career and technical education, and local use of funds. The term is defined according to the WOW Standard in Perkins report language.

<sup>12</sup> Under WIA, One-Stop clients have access to services on a sequential basis: core, intensive and training services. Intensive services are the bridge between the programs offered within the One-Stop and the actual, hands-on training programs that can prepare workers for jobs. Under Sec. 134(d) (3) (A) (ii) workers in jobs not leading to self-sufficiency are eligible for intensive services. The law states that eligibility for intensive services includes those "who are employed, but who are determined by a one-stop operator to be in need of such intensive services in order to obtain or retain employment that allows for self-sufficiency." Federal regulations make clear that state or local workforce boards must set the criteria for determining whether employment leads to self-sufficiency.

<sup>13</sup> The Office of Community Services with oversight of the Community Service Block Grant. The outcome evaluation of the Community Action Agencies, the ground level organization receiving CSBG funds, uses the Self-Sufficiency Standard to define and guide strategies for one of their six measures of success.

<sup>14</sup> Arizona, California, Connecticut, Illinois, Maine, Maryland, Massachusetts, Minnesota, Montana, Oregon, Pennsylvania, Washington, Wisconsin and Wyoming.



In 2003, 36 percent of *local* Workforce Investment Boards responding to a survey by the National Association of Workforce Boards and WOW reported using Self-Sufficiency Standards in various ways. One of the most common is to integrate the standard in an on-line Self-Sufficiency Calculator that enables caseworkers and the public to determine what a self-sufficient income is for a particular family. Plus, several of the calculators additionally allow the user to view occupations that can lead to that income level, identify sources of education and training for those skills, and see what public benefits for which they appear eligible to bridge the gap between an entry level job and economic stability. Self-sufficiency calculators are available in 9 states.<sup>15</sup>

Self-Sufficiency Calculators have a wide variety of uses besides counseling. The Seattle-King County Workforce Development Council uses the calculator as a tool to track individual progress for program evaluation (<http://www.seakingwdc.org/>). Early benchmarking data collected by caseworkers using the calculator indicates that 70 percent of those who reported zero income upon entry into the program had attained self-sufficiency wages after exiting. (Additional uses of the Standard and calculators can be found in Appendix I.)

#### **Developing a Measure of Income Adequacy for Seniors**

The Elder Economic Security Standard™ index, piloted in Massachusetts in 2006, uses similar data as the Family Economic Self-Sufficiency Standard. It differentiates, however, among individuals and couples who own their homes free and clear, those who rent and those who still hold mortgages. It also differentiates by health status – poor, good, and excellent. Included are premium and co-pay costs for Medicare Parts B, C and D and median out-of-pocket costs from the Medical Expenditure Panel Survey. Costs of home- and community-based long-term care are also included in the Elder Standard™ index. Elder Standard™ indexes are under development in California and Illinois, and will be calculated for the rest of the country by 2012.

Like policies and programs for working families, much of current policy and program design for low-income elders is based upon federal poverty thresholds. In the case of seniors the threshold is even lower than that designed for working families because the U.S. Department of Agriculture calculations assume that older adults have lower caloric requirements than younger adults. As a result, the official U.S. poverty thresholds are lower for adults 65 and older than for younger adults. Elders living alone are not considered officially poor unless they have \$793 per year less than younger adults, and elder couples are not poor unless they have \$1,328 per year less than younger couples.<sup>16</sup>

The Elder Standard™ index uses cost data from public federal and state sources that are comparable, geographically specific, easily accessible, and widely accepted. In areas where existing public data sources are not currently available, such as long-term care costs, we use a consistent methodology to derive comparable measures for costs.

The Elder Standard™ index:

- Measures basic living expenses for seniors (aged 65 and older) in the community (not in institutions, such as skilled nursing facilities or assisted living facilities).
- Measures costs for senior households to live independently (vs. living in intergenerational households).

<sup>15</sup> California, Indiana, Illinois, New York, Pennsylvania, Washington, Wyoming, the District of Columbia and Colorado (in progress). See Appendix X for the website sites.

<sup>16</sup> The poverty guidelines are a second version of the federal poverty measure. Issued each year in the Federal Register by the Department of Health and Human Services, they are a simplification of the poverty thresholds for administrative uses, such as determining eligibility for certain federal programs. The federal poverty guidelines for 2006 are \$9,800 for one-person households and \$13,200 for two-person households. They are the same in 48 states and adjusted for living costs only in Alaska and Hawaii.

- Includes Medicare because seniors qualify for and receive it based on age, not income eligibility, making it nearly a universal program.
- Models costs for retired elders, who no longer face costs of working, such as payroll taxes and commuting to work.

The Elder Standard™ index, just like the Family Economic Self-Sufficiency Standard, measures costs in today's marketplace. Economic security implies that seniors can meet their basic needs without income-eligible public subsidies, such as food stamps, subsidized housing, Medicaid, or property tax help.

The table below illustrates the Elder Standard™ index using the U.S. cost data for four selected elder household types in good health: an individual elder homeowner who owns a home without a mortgage, an elder tenant in a market rate apartment, an elder couple who own their home without a mortgage, and an elder couple in a market rate apartment.

**The Elder Economic Security Standard™ Index, US Average, 2006**  
**Monthly Expenses for Selected Household Types**

| Monthly Expenses/Monthly and Yearly Totals | Elder Person       |                      | Elder Couple       |                      |
|--|--------------------|----------------------|--------------------|----------------------|
|  | Owner w/o Mortgage | Fair Market Rent 1BR | Owner w/o Mortgage | Fair Market Rent 1BR |
| Housing                                    | \$ 349             | \$ 655               | \$ 349             | \$ 655               |
| Food                                       | \$ 206             | \$ 206               | \$ 378             | \$ 378               |
| Transportation (Private Auto)              | \$ 276             | \$ 276               | \$ 337             | \$ 337               |
| Health Care (Good Health)                  | \$ 220             | \$ 220               | \$ 440             | \$ 440               |
| Miscellaneous @ 20 percent                 | \$ 210             | \$ 271               | \$ 301             | \$ 362               |
| <b>Elder Standard Per Month</b>            | <b>\$ 1,261</b>    | <b>\$ 1,628</b>      | <b>\$ 1,805</b>    | <b>\$ 2,172</b>      |
| <b>Elder Standard Per Year</b>             | <b>\$ 15,134</b>   | <b>\$ 19,541</b>     | <b>\$ 21,658</b>   | <b>\$ 26,064</b>     |

According to the Elder Standard™ index, a single elder homeowner without a mortgage and in good health needs at least \$15,134 per year just to meet basic expenses. Three out of ten retired elders rely solely on Social Security. For this group of seniors, the average annual Social Security payment (\$12,024 in 2006) provides only 79 percent of what a one-person elder homeowner without a mortgage needs and only 69 percent of the income needed by an elder renter (\$19,541). Economic security is even further out of reach for women as 46 percent of all elderly women relied on Social Security for more than 90 percent of their income in 2004. With a federal poverty level of \$9,800, many elders do not qualify for important low-income supports which could assist in close the income gap illustrated by the Elder Standard™ index.

Long-term care costs can nearly equal or more than double the costs of all other components in the Elder Standard™ index, leading to a severe financial impact on elders' budgets.

### Conclusion

We salute Congressman McDermott for taking on the challenge of raising the issue of the inadequacy of the current federal poverty level. As a country we can not shy away from facing the facts of what it costs to live in the United States today. Although, in the short run, some will find it uncomfortable to acknowledge that more people are struggling to meet their daily costs of living, in the long term a new

measure will lay the basis of sound policy and program development for the future. The incorporation of the Self-Sufficiency Standard in a wide range of policy, program, and direct service implementation in a critical mass of states reflects the fact that states and local governments are succeeding in using an alternative to the federal measure. We encourage the federal government to develop both a tool and a framework to guide federal policy that reflects a higher, more accurate measure of economic security at all stages of life. We stand ready with you to develop such a measure.

### **Appendix I Examples of State Uses of the Self-Sufficiency Standard**

#### **Washington State**

The Seattle-King County Workforce Development Council uses the Self-Sufficiency Standard as a program evaluation benchmark (see <http://www.seakingwdc.org/>). Early benchmarking data using the calculator to track individual progress indicates that 70 percent of those who reported zero income upon entry into the program had attained self-sufficiency wages after exiting.<sup>17</sup>

#### **California**

The Women's Initiative for Self-Employment in San Francisco uses the Self-Sufficiency Standard with clients who are learning to start micro-businesses and uses the Standard to measure outcomes as clients complete the micro-enterprise training program. The Sacramento Employment and Training Agency (SETA), one of several WIBs across the state using the Standard, uses the Self-Sufficiency Standard as eligibility criteria, in their client financial assessments, and evaluation. The California State Legislature adopted a resolution in 2004 (SJR 15) that encouraged the federal government to study the benefits of using a self-sufficiency index similar the state's in place of the federal poverty measure.<sup>18</sup>

#### **New York City**

The Self-Sufficiency Calculator for New York City helps adults working or reentering the labor market identify the work supports they need to stay in the workforce. This tool is utilized by hundreds of case managers across the city. The calculator is a computer-based tool that screens and estimates work support benefits, including scenarios at different wage levels, allowing an individual to plan their budget along a path to economic security.

#### **Alabama**

Alabama Arise, a coalition of over 100 religious, community, and civic groups uses the cost estimates in the Alabama Standard to advocate for access to public transportation for low-income people, tax reform, and wage increases.

#### **Georgia**

The Women's Policy Group used the Georgia data to demonstrate the need for unemployment insurance reforms to benefit low-wage, part-time working women through research, public education, coalition-building.

<sup>17</sup> Calculators can be found at **California:** <http://www.ncdlc.org/calcha.htm>; **Indiana:** <http://www.wdci.org/calculator/>; **Illinois:** <http://www.ides.state.il.us/calculator/default.asp>; **New York City:** [www.wceca.org](http://www.wceca.org); **New York State, Erie County:** <http://www.everywoman.org/sscalculator.html>; **Pennsylvania:** <http://www.pathwayspa.org>; **Washington State, Seattle-King County:** [www.seakingwdc.org](http://www.seakingwdc.org); **Snomish County:** <http://www.worksourceonline.com/js/sscalc.html>; **South Central Washington:** <http://www.co.yakima.wa.us/e&t/ssc/sscmain.htm>; **Wyoming:** [http://www.wyomingworkforce.org/resources/ss\\_index.aspx](http://www.wyomingworkforce.org/resources/ss_index.aspx); **Washington, D.C.:** <http://www.demussc.org>; **Colorado in development:** Contact [mfarrell@cclponline.org](mailto:mfarrell@cclponline.org)

<sup>18</sup> "Using the California Self-Sufficiency Standard in Practice", by Aimee Durfee, Edited by Tse Ming Tam and Susie Suafai, September 2004. Available at: <http://www.ncdlc.org>