MEASURING POVERTY IN AMERICA: HOW POLITICS HAS TRUMPED REASON, AND HOW TO RESTORE IT

A Thesis
submitted to the Faculty of
The School of Continuing Studies
and of
The Graduate School of Arts and Sciences
in partial fulfillment of the requirements for the Master of Arts in Liberal Studies

By

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April 2, 2012
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ABSTRACT

When discussing the official U.S. measure of poverty, all interested parties can agree upon one thing: it is an increasingly inadequate reflection of what it means to be poor in this country and who is counted as such. And much of the agreement ends there. On the liberal end, experts will point out that the poverty measure does not comprehensively take into account increases in cost of living or median family income and should therefore be adjusted upwards. Many also argue that it should be a reflection of how an individual or family is situated relative to others in their society. On the conservative end, poverty measure experts point out that the average “poor” family has access to cable television, video games, cell phones and other amenities that are hardly necessary for survival. They point out that, despite improvements in the living conditions of low-income Americans, the official poverty rate has not declined over time.

This discussion seeks to provide a detailed examination of how and why the United States developed an official poverty measure, how the U.S. measure compares to measures used in other Western countries, and what attempts there have been to update the measure. Finally, it describes what lessons can be learned from other western countries to create a unique and lasting American measure that, unlike the current measure, would remain in touch with the changing needs of society. Such a measure, it concludes, must incorporate direct public consultation rather than solely relying on expert research.

This paper does not seek to answer questions related to how to address poverty, the ramifications of a new measure, or how to determine who should be eligible for anti-poverty
spending. Rather, it attempts to provide a framework for understanding why the U.S. has the measure it has; how that measure paints an inadequate, incomplete, and somewhat arbitrary portrait of poverty in America; and how to more accurately, defensibly, and thoughtfully measure American poverty.
The author would like to thank Richard Bavier, Indivar Dutta-Gupta, and Shawn Fremstad for their helpful and thoughtful comments on the final chapter and guidance throughout. The author would particularly like to thank Gordon M. Fisher for his engagement on this particular paper, but moreover for his dedication to the issue of American poverty measurement, its history, and its understanding.
# TABLE OF CONTENTS

ABSTRACT ......................................................................................................................................................... ii

ACKNOWLEDGMENTS ........................................................................................................................................... iv

LIST OF TABLES .................................................................................................................................................. vi

LIST OF FIGURES ............................................................................................................................................... vii

Chapter

1. AN INTRODUCTION TO THE OFFICIAL U.S. POVERTY MEASURE AND OTHER WIDELY ACCEPTED MEASURES IN OTHER WESTERN NATIONS ................................................................................. 1

2. HOW THE U.S. MEASURE CAME TO BE, HOW IT IS USED, AND HOW IT HAS PERFORMED OVER TIME ................................................................................................................................. 9

3. AN ANALYSIS OF DIFFERENT METHODS OF MEASURING POVERTY IN OTHER WESTERN COUNTRIES ................................................................................................................................. 28

4. ATTEMPTS TO UPDATE OR ALTER THE U.S. POVERTY MEASURE ........................................................................ 42

5. THE NATIONAL ACADEMY OF SCIENCES (NAS) MEASURE AS THE DOMINANT MEASURE AND ITS USES AND MISUSES OVER TIME .............................................................................. 54

6. FLAWS WITH THE SUPPLEMENTAL POVERTY MEASURE (SPM) AND NAS-BASED APPROACH (AND HOW TO GET AROUND THEM) ......................................................................................... 68

CONCLUSION ....................................................................................................................................................... 82

BIBLIOGRAPHY .................................................................................................................................................... 85
LIST OF TABLES

1. Persons in poverty status in 1963, by alternative definitions (in millions) ..................17

2. Incidence of poverty by two measures: families with 1963 incomes below $3,000 and below the economy level of the SSA poverty index, by specified characteristics (numbers in millions) .................................................................18

3. Components of the market basket for the Canadian MBM for a reference family of four in 2000 ........................................................................................................................................37

4. Elements of the current official measure and proposed NAS measure .......................55

5. Comparison of approaches to measuring poverty .........................................................64

6. Number and percent of people in poverty by different poverty measures: 2010 ..........66
LIST OF FIGURES

1. Alternate poverty measures in current dollars, 1947-2007.................................26
2. The federal poverty standard and the Gallup get-along and poverty standards, all after-tax, as a percent of median 4-person family income after tax, 1947-1989......................27
4. Minimum income standard research stages.........................................................73
CHAPTER I

AN INTRODUCTION TO THE OFFICIAL U.S. POVERTY MEASURE AND OTHER WIDELY ACCEPTED MEASURES IN OTHER WESTERN NATIONS

The United States designated an official statistical definition of poverty in August of 1969 and, aside from minor and inflationary adjustments, has left the associated measure largely untouched since.¹ The threshold was set as the cost of a minimum diet multiplied by three to account for the need of other expenses such as clothing and shelter.² The determination of the cost of a minimum diet was based on calculations by dietitians at the U.S. Department Agriculture who used complex procedures to determine what constituted a diet, "designed for temporary or emergency use when funds are low." This plan “allowed for no eating at restaurants...and was acknowledged by its developers to provide for a nutritious but monotonous diet.”³ Importantly, the threshold is based on a prototype family made up of a husband and wife and assumes, “the housewife will be a careful shopper, a skillful cook, and a good manager who will prepare all the family’s meals at home.”⁴ The multiplier of three was used because 1955 data from the Department of Agriculture’s Household Food Consumption Survey showed that the average household spent approximately one-third of its after-tax income on food. Poverty thresholds varied slightly to account for the different dietary needs of children and the elderly as well as the economies of scale of larger households.

There are two calculations necessary to fully understand an individual’s or household’s economic situation: the threshold calculation, as described above, and the resource calculation--


³. Ibid.

⁴. Fisher.
that is, what resources are taken into account when determining whether or not one meets that threshold. For the official U.S. poverty measure, resources are considered to be pre-tax cash income.\(^5\) Such a measure excludes non-cash benefits or post-tax transfers such as housing vouchers or tax credits.

By setting the poverty threshold at a certain level and updating it only for inflation, the United States effectively created an absolute, rather than relative, measure. The term “absolute” can be thought of in two different ways when referencing poverty calculations: the way the measure is first calculated as well as the way the measure is updated over time. For example, a measure that was set at 50 percent of median income and then indexed to inflation would be relative in terms of the initial calculation, but absolute in terms of how it changes over time. While adjusting for inflation is a means of updating the threshold, changes in the Consumer Price Index (CPI) do not reflect relative changes across income levels, but rather merely the change in the cost of a market basket of goods. In order for a measure to be relative in terms of how it is updated, it must take into consideration how the poor are faring compared to those at other income levels. Accordingly, a measure that is always set at 50 percent of median income, for example, is relative in both respects.

**Common Approaches to Measuring Poverty**

There are numerous approaches to measuring poverty in the developed world. Among the most common, examined below, are relative measures, absolute measures, subjective measures, and consensual or perceived deprivation measures. Though wide variance exists within--and between-- these four approaches, they form the foundation of poverty measurement.

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5. Ibid.
It should also be noted that while these are the four primary terms to describe poverty measures, the terms themselves (particularly absolute and relative) are imperfect.\textsuperscript{6}

\textbf{Relative Measurement.} Most wealthy nations utilize a relative measure of poverty, both in terms of its initial development as well as the way in which it is updated over time. A relative measure of poverty intrinsically acknowledges that what constitutes poverty should reflect societal changes in the standard of living as well as measure economic or social distance from the norm. The Organization for Economic Co-operation and Development (OECD), for example, measures poverty of member countries as half of median income.\textsuperscript{7}

The conventional view in most European countries is that “poor” is defined as having an income below 60 percent of the median.\textsuperscript{8} Critics of a relative measure argue that any definition is arbitrary. Why, one might ask, is 60 percent any more accurate or scientific than 61 percent or 59 percent?\textsuperscript{9} Another prevalent criticism of a relative measure of poverty is that under such a measure, if the economic situation for all individuals rose at a constant rate, the poverty rate would remain unchanged. Or if economic growth benefited all levels of the income distributions, but, benefited the middle and upper class at a slightly higher rate, the poverty rate would


increase. One can picture a period of economic prosperity in which income levels rose for the majority of the population; however, if the average low-income family’s income rose at a rate slightly below that of middle and upper-income families, the poverty rate would technically increase. As Patricia Ruggles, author of well-known and respected literature on poverty measurement, points out, “Poverty cannot decline under a relative poverty measure without some change in the shape of the income distribution as a whole.”10 Furthermore, some see implementation of a relative measure of poverty as a way to expand transfer programs and redistribute wealth.11

**Absolute Measurement.** An absolute measure, by definition, remains constant while standards of living at different points on the income distribution move up or down. Absolute measures are commonly used to measure poverty in the developing world. The World Bank, for example, measures global poverty in poor nations by the number of individuals in a country living on less than $1.25 per day.12 In western countries, an absolute definition establishes some recognized basic needs, and though the cost of purchasing those basic needs may go up or down, as reflected by CPI/inflation, what is considered a basic need remains unchanged.

It is well-recognized that living standards change over time. A significant challenge in determining any absolute measure is defining what should be included as a basic need. Basic needs, in the most fundamental sense, are those items that a human needs to survive, but in 21st-century western society, determining basic needs is complex. Access to clean water and


sanitation services is close to universal and the risk of starvation has been nearly eliminated. Accordingly, the notion of poverty has moved beyond determining basic needs as those essentials necessary to physical functioning. Should survival be defined as getting by in one’s specific society and maintaining a certain level of social inclusion? If so, the goods and services necessary to get by undoubtedly change over both time and place.

In the U.K., where poverty is generally understood in a relative manner, there has been an interest in how to adopt an absolute poverty line. A discussion on the U.K.’s Poverty Site for statistics on poverty and social exclusion demonstrates the difficulty of applying an absolute poverty threshold to western nations:

The view that there should be an absolute poverty threshold but that it should be much higher than $1 or $2 per day begs the question about how such a threshold should be defined and on what basis.

In the U.K., the main efforts to define such thresholds have been undertaken under the general heading of 'minimum income standards', which basically estimate the level of income required to purchase a given basket of goods and services. But the key point about such initiatives is that the basket of goods and services is defined according to the norms of the day and, as such, are inherently relative rather than absolute in nature. So, for example, there would be many items in the 'today's basket' that would not have been in the basket 50 years ago. In other words, 'minimum income standards' relate to relative poverty rather than to absolute poverty.

In recent years, the Government has begun to describe households with less than half the average 1997 household income (after adjusting for inflation) as being in 'absolute poverty'. This is, however, purely a political device - the only relevance of 1997 is that it is when the current Government came into power. That is not to say that the statistic is unimportant, simply that it should not be described as 'absolute poverty.'

As demonstrated above, no clear way of defining an absolute poverty threshold exists, except by applying an absolute minimum, such as the World Bank’s $1.25 per day definition. However, in western nations, such a threshold is clearly unrealistic as nobody could survive on an income that low. This challenge has led to increased interest, particularly in Europe, in understanding and

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defining “social exclusion.” The idea behind social exclusion measures is that poverty is more
than a material and financial state of deprivation and can be described as below:

The unique interplay of a number of factors, whose consequence is the
denial of access, to an individual or group, to the opportunity to
participate in the social and political life of the community, resulting not
only in diminished material and non-material quality of life, but also in
tempered life chances, choices and reduced citizenship.¹⁴

Subjective Measurement. The third general way of defining a poverty threshold is with a
subjective measure. Subjective measures of poverty are based on the responses of individuals to
widespread surveys on the topic.¹⁵ Subjective poverty can be measured based on individuals’
assessment of their own poverty status (i.e. an individual or family is poor if they believe
themselves to be), or based on where the majority of respondents believe a poverty line should
be set. In the former measure, there is no actual poverty threshold, but instead the self-
assessments are used to determine a poverty rate.¹⁶ For example, if 13 percent of respondents
considered themselves to be poor, the subjective poverty rate, quite simply, would be 13 percent.
In the latter type of measure, sometimes referred to as the “majoritarian” or “democratic”
poverty line, respondents are asked both their own income and whether they believe themselves
to be poor. These responses are then compared to identify the strongest correlation between
income distribution and self-identified poverty.¹⁷ For example, if most respondents earning
$15,000 per year or below considered themselves poor, and most respondents above that income

¹⁴. Susan Kenyon, Jackie Rafferty, and Glenn Lyons, “Transport and Social Exclusion:
Investigating the Possibility of Promoting Inclusion Through Virtual Mobility,” Journal of Transport
Geography, no. 10 (September 2002): 3.

¹⁵. Haveman and Mullikin, 24.

Implications (London: The Institute of Economic Affairs, 2011), 45,

¹⁷. Ibid.
threshold did not, the subjective poverty line would be set at $15,000 per year. As an alternative, a subjective poverty line can be determined based on asking survey respondents what they consider to be a poverty-level income. One subjective, but unofficial, measure in the U.S. is done through Gallup polls which, over multiple years, have asked people how much a family of four would need to, “get along in your local community.” Interestingly, responses to this “get-along” question have consistently shown stronger correlations to 50 percent of both mean and median income than to the U.S. official poverty levels.\footnote{Rebecca M. Blank, “Presidential Address: How to Improve Poverty Measurement in the United States,” \textit{Journal of Policy Analysis and Management} 27, no. 2 (March 2008): 249, http://www.npc.umich.edu/news/events/pdf/Blank-PovertyMeasure%20(2).pdf (accessed October 10, 2011) citing the research of Denton R. Vaughan in “Exploring the Use of the Public’s Views to Set Income Poverty Thresholds and Adjust Them over Time,” \textit{Social Security Bulletin} 56, no. 2 (Summer 1993, update February, 2004), http://www.census.gov/hhes/povmeas/publications/other/wkppov20_cen.pdf (accessed October 10, 2011).}

\textbf{Consensual or Perceived Deprivation Measurement.} This type of measure is based upon the lack of socially perceived necessities. Typically, public opinion and/or expert research will determine items most people think everyone should be able to afford and no one should have to do without. The items tested can cover both material and social aspects of life. Once these necessities are determined, the consensual method proceeds to find out who lacks these necessities. In this approach, individual lifestyle choices are allowed for by distinguishing between those who lack necessities through lack of income and resources and those who choose not to purchase these items. Based on this, one can examine the living standards for all social groups in terms of their enforced lack of necessities. The actual level of deprivation is based on some calculation that takes into account the number of necessary items a household possesses: the more perceived necessities a household lacks, the more deprived they are.

This deprivation standard can then translate into a poverty threshold. In the United Kingdom, for example:
A ‘poverty threshold’ is then calculated using a range of sequential statistical procedures to relate the number of necessities lacking in a household to the incomes of households, adjusted to take into account household composition and size (household equivalised income). Those who lack necessities through choice are already excluded so we look at only those who perceive themselves to have an ‘enforced’ lack of necessities.19

Indeed, many western countries take a more dynamic approach to measuring poverty and do not have the long history of solely one stagnant “headline” measure, as is the case in the United States.

Much discussion went into the establishment of and calculations behind what became the official U.S. poverty measure. As the next chapter will discuss, the way in which the measure was to be updated seemed less important at the time of its origination. Yet the absence of robust and thoughtful discussion of how the method should be updated over time would later prove to be one of the primary reasons the U.S. measure has failed to keep pace with societal changes and has become an increasingly less meaningful statistical measure.

CHAPTER II
HOW THE U.S. MEASURE CAME TO BE, HOW IT IS USED, AND HOW IT HAS PERFORMED OVER TIME

In the United States, the formula that resulted in the official poverty thresholds was developed without that intended use. Furthermore, it was not developed to be a lasting measure and little thought went into how it might be updated over time as its initial purpose was to capture a point-in-time estimate of poverty.

How the Measure Came to Be

Between 1963 and 1964 Mollie Orshansky, an economist working for the Social Security Administration (SSA), set out to develop a way to measure and assess the relative risk of poverty among different demographic groups, focusing on families with children.

To understand the origin and history of the poverty measure, it is important to know the life and experience of the measure’s creator. Mollie Orshansky was born in New York City in 1915. She was one of six daughters of immigrants who left what is now the Ukraine to escape poverty. Still, Orshansky and her sisters grew up poor in America as well—in her words, the family could "barely...make ends meet." As she was to say later, "If I write about the poor, I don't need a good imagination—I have a good memory." She was both the first high school graduate and the first college graduate in her family; she graduated from Hunter College in 1935 with an A.B. in mathematics and statistics. After graduating, Orshansky worked in New York City as a statistical clerk for the New York Department of Health. In 1936, she moved to Washington, D.C. to take a job as a junior statistical clerk, then research clerk with the U.S. Children's Bureau. She later became a family economist, then food economist at the U.S.

Department of Agriculture (USDA). It was through her work at the USDA that she became familiar with the food plans and the food survey from which she would later develop her poverty thresholds.²

In February 1958, Orshansky joined the SSA as a social science research analyst. In 1963, she was assigned to do a research project on "Poverty as It Affects Children." At that time there was no generally accepted measure of poverty, so she developed her own.³ In July 1963, Orshansky published the results of her research project in a Social Security Bulletin article, "Children of the Poor." The preface to the article provides important insight into both the historical context of the undertaking, as well as the passion Orshansky had for the topic:

There is a growing awareness that as the Nation grows richer the dollar gap between average income and the income of our poorest citizens widens. Because prices and standards tend to move with prevailing income, families remaining at the bottom of the heap will be outbid and out-spent. When such poverty befalls families rearing children--the citizens of the future-- the social consequences reach far beyond the present deprivation. By one crude index of poverty it can be shown that every fourth or fifth family with children under age 18 may have to choose between an adequate diet at minimum cost and some other necessity--they cannot afford both. All told, some 17-23 million youngsters, or from a fourth to a third of all our children, are growing up in the gray shadow of poverty.⁴

Orshansky herself conceded as follows:

The mere fact of income inequality alone need not disturb us, but how to distinguish between the absolute deprivation of poverty and mere lower-than-average income status is still a matter of controversy if not a matter of taste. As the general level of living moves upward and expands beyond necessities, the standards of what constitutes an irreducible minimum also change.⁵

² Fisher, “Remembering Mollie Orshansky.”

³ Ibid.


⁵ Ibid., 5.
But of particular interest and concern to Orshansky was that certain demographic groups—namely the elderly, families headed by women, and African Americans—were far more likely to be poor. And due to the changing demands of the labor market, it concerned her that poverty was no longer reserved for those incapable of work, but rather a class of “working poor” was emerging. Of further concern was that one class of the poor, the elderly, was receiving significant attention while the needs of poor families with children were less apparent.6

Orshansky used data from the Current Population Survey (CPS), which SSA purchased from the Census Bureau for $2,500, to show that the median income for female-headed households with three children was $2,345 (compared to $6,630 for the average three-child family headed by a married couple). Orshansky was reportedly horrified when she realized that half of these families had to live for an entire year on less money than SSA had paid for one statistical tabulation. She later commented, "I determined I was going to get my $2,500 worth."7

Orshansky used two USDA calculations, those of a “low-cost food plan” and “economy food plan,” to determine her poverty thresholds. She referred to these as “crude criterion of income adequacy.”8 These calculations provided estimates of the minimum dollar value necessary for the average farm and non-farm families to meet nutritional goals. Orshansky described the meal plans as below:

By no means subsistence diets…they do assume that the housewife is a skillful cook, and a good manager who will prepare all the family’s meals at home. There is no additional allowance for snacks or the higher cost of meals away from home or meals served to guests. Nor is there extra allowance for the ice-cream vendor or the soda pop so often part of our children’s daily diet.9

6. Ibid., 6.


9. Ibid.
Orshansky then matched the USDA data with data from the Census that demonstrated that the average family spent one-third of its income on food. Essentially, she took the cost of a minimal diet and multiplied that by three to determine the thresholds below which a family was incapable of maintaining an adequate standard of living. She found that the percent of the population that fell under this threshold ranged from 13 to 21 percent, depending on which food plan was used (low-income vs. economy, respectively). Orshansky recognized that the larger the family, the greater the likelihood of income inadequacy--a point she would further detail in future work. Based on the Orshansky calculation, the income required by a two-parent, two-child non-farm family would range from $3,165 to $3,955 depending on whether one chose to use the economy or low-income food plan.

Though much of Orshansky’s paper was spent outlining the way in which she came to count the poor, the concept of a measure was created as one possible way to trace the course of poverty and bring attention to the plight of children growing up in poor households, specifically those headed by an unmarried woman. Social insurance benefits to dependents of retired, deceased, or disabled workers rarely reached low-income single mothers with children, as most of those mothers were never married, or were separated or divorced from the fathers of their children. Orshansky worried that with economic progress, the United States may well be establishing, “a ‘caste of untouchables,’ with mother-child families as the nucleus.”

Importantly, Orshansky’s original purpose was not to introduce a new general measure of poverty but to develop a measure to “assess the relative risks of low economic status (or, more

10. Ibid., 9.
11. Ibid.
12. Ibid., 12.
broadly, the differentials in opportunity) among different demographic groups of families with children.” Coincidentally, Orshansky’s efforts to better understand and measure the plight of the poor came at the same time as the Johnson Administration’s need for a tool to measure poverty.

In his State of the Union Address on January 8, 1964, President Lyndon Johnson declared a “War on Poverty.” Five days later, the President’s Council of Economic Advisers (CEA) sent him its Annual Report. Chapter two of the report was titled, “The Problem of Poverty in America,” and in it, the Council put forward its own poverty threshold of $3,000 for a family of four. Tables 1 and 2 show a detailed picture of the difference in composition of the poverty population both at the individual and family level under alternative thresholds including those proposed by the CEA and Orshansky. Though the CEA’s threshold was not derived from Orshansky’s calculations, the report did reference the SSA’s recent study and its comparable low-cost and economy budgets:

By the standards of contemporary American society most of the population of the world is poor; and most Americans were poor a century ago. But for our society today a consensus on an approximate standard can be found. One such standard is suggested by a recent study, described in a publication of the Social Security Administration, which defines a "low-cost" budget for a nonfarm family of four and finds its cost in 1962 to have been $3,955. The cost of what the study defined as an "economy-plan" budget was $3,165. Other studies have used different market baskets, many of them costing more. On balance, they provide support for using as a boundary, a family whose annual money income from all sources was $3,000 (before taxes and expressed in 1962 prices). This is a weekly income of less than $60.15


15. Ibid., 57.
Though it would seem the $3,000 cutoff was based on Orshansky’s work, the similar numbers seem to be both a coincidence as well as a reflection of what a commonly acceptable threshold would be. The President had to think not only about what was logical and evidence-based, but also what would sound reasonable to the public. Interestingly, this threshold corresponded closely with public perception based on Gallup-polling of what constituted sufficient income to “get-along.” In 1963, polling data indicated that the public believed $4,328 was adequate annual income to “get-along.”

By using a multiplier based on historical data, in 1993 economist Denton R. Vaughan created a Gallup-based poverty threshold which indicated that in 1963, the general public would have set the poverty threshold for a family of four at $3,128. CEA staffer Robert Lampman, who played a key role in establishing the $3,000 threshold, indicated that the level was a consensus choice based on consideration of such factors as the minimum wage level, the income levels at which families began to have to pay federal income taxes, and public assistance payment levels. It would also seem to conveniently fall in line with public perception-- something that future thresholds failed to do, despite being reflective of cutoff points for public assistance, tax thresholds, or minimum wage calculations.

The CEA report recognized that using solely cash income as a means to define poverty omitted critical indicators, such as a family’s savings and varied cutoffs depending on family size, age, location, property, ability to borrow, and other indicators of needs and costs. It conceded that the limitations of available Census data made such detailed considerations


17. Ibid., 40.

impossible. Importantly, the report made clear that its inexact threshold should not be used to
determine program eligibility but was rather “a valid benchmark for assessing the dimensions of
the task of eliminating poverty, setting the broad goals of policy, and measuring our past and
future progress toward their achievement.”

Orshansky had concerns that the CEA’s poverty threshold failed to use equivalence
scales, which would adjust the poverty line to account for the fact that families come in different
sizes and composition. This meant that under the CEA’s threshold, a family with four children, a
family with one child, and an elderly couple with grown children all fell under the same $3,000
cutoff. This resulted in understating the number of children in poverty relative to aged persons
and led to her work that resulted in her January 1965 Social Security Bulletin article, “Counting
the Poor: Another Look at the Poverty Profile.” In the preface to this article, Orshansky wrote:

When the Council of Economic Advisors used annual income of less than
$3,000 to define families living in poverty, it noted that this was a crude and
approximate measure. Obviously the amount of cash income required to
maintain any given level of living will be different for the family of two and the
family of eight, for the person living in a large metropolitan area and a person of
the same age and sex living on a farm.

In that article, Orshansky went on to calculate how to adjust poverty thresholds based on family
size. Due to both limited resources and limited data, Orshansky developed poverty thresholds
based solely on the cost of food rather than taking into account the cost and share of major
essential items of living (for example, housing, medical care, clothing, and transportation), also
known as a “standard budget.” At the time--and still today--aside from the cost of food, there
existed no generally accepted standard for what constituted essential needs nor survey data


September 23, 2011).

21. Ibid.
reliably reporting the cost of those goods.\textsuperscript{22} The United States, moreover, was well-recognized as a country where low-income individuals rarely struggled for survival or escape starvation, but rather for upward mobility and an improved quality of life, unlike what was commonly the case in developing countries. Orshansky made this point by saying, “Despite the Nation’s technological advance, or perhaps because of it, there is no generally accepted standard of adequacy for essentials of living except food.”\textsuperscript{23}

Orshansky returned to the USDA’s “economy” food plan calculations to determine the total income requirements of families of different sizes and age compositions as well as the lower level of need of farm families who grew much of their own food. This resulted in a total of 248 separate income cutoffs and reflected the reality that fewer small families and more large families should be counted as poor.\textsuperscript{24} As Table 2 indicates, the Orshansky measure painted a dramatically different picture of who was poor in America. And, despite creating a higher threshold for a family of four when compared to the Council of Economic Advisers’ figure, under Orshansky’s model, there were actually fewer poor families (despite revealing a heightened number of poor individuals). In this sense, her model was able to strike an interesting political balance.


\textsuperscript{23} Orshansky, “Counting the Poor,” 5.

\textsuperscript{24} Ibid., 6.
<table>
<thead>
<tr>
<th>Type of Unit</th>
<th>A(^i)</th>
<th>B(^ii)</th>
<th>C(^iii)</th>
<th>D(^iv)</th>
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<td>34.5</td>
<td>34.6</td>
<td>18.2</td>
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<td>6.4</td>
<td>5.1</td>
<td>3.2</td>
<td>12.6</td>
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<td>27.6</td>
<td>29.3</td>
<td>31.4</td>
<td>174.6</td>
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<td>4.9</td>
<td>4.9</td>
<td>11.2</td>
</tr>
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<td>1.4</td>
<td>.2</td>
<td>.1</td>
<td>.4</td>
</tr>
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<td>2.6</td>
<td>4.7</td>
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<td>29.6</td>
<td>29.7</td>
<td>176.0</td>
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<td>4.7</td>
<td>5.0</td>
<td>4.9</td>
<td>3.1</td>
<td>12.2</td>
</tr>
<tr>
<td>Nonfarm………………….</td>
<td>23.8</td>
<td>25.0</td>
<td>24.6</td>
<td>26.6</td>
<td>163.8</td>
</tr>
<tr>
<td>Children under 18………..</td>
<td>10.8</td>
<td>15.7</td>
<td>14.1</td>
<td>15.0</td>
<td>68.8</td>
</tr>
<tr>
<td>Farm……………………..</td>
<td>1.8</td>
<td>2.4</td>
<td>2.1</td>
<td>1.5</td>
<td>4.8</td>
</tr>
<tr>
<td>Nonfarm………………….</td>
<td>9.0</td>
<td>13.3</td>
<td>12.0</td>
<td>13.5</td>
<td>64.0</td>
</tr>
</tbody>
</table>

\(^i\) Under $3,000 for family; under $1,500 for unrelated individuals (interim measure used by Council of Economic Advisers).
\(^ii\) Level below which no income tax is required, beginning in 1965.
\(^iii\) $1,500 for first person plus $500 for each additional person, up to $4,500.
\(^iv\) Economy level of the poverty index developed by the Social Security Administration, by family size and farm-nonfarm residence, centering around $3,100 for 4 persons.

Source: Data included in Table 1, designed by the author, comes from a similar, but more detailed, table available: Orshansky, “Counting the Poor,” 11.
Table 2. Incidence of poverty by two measures: families with 1963 incomes below $3,000 and below the economy level of the SSA poverty index, by specified characteristics (numbers in millions)

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Total Number of Families</th>
<th>Poor—With Incomes Under $3,000</th>
<th>Poor—With Incomes Below Economy Level</th>
<th>Percentage Distribution of All Poor Families</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Percent of Total</td>
<td>Number</td>
<td>Percent of Total</td>
</tr>
<tr>
<td>All Families</td>
<td>47.4</td>
<td>8.8</td>
<td>7.2</td>
<td>15</td>
</tr>
<tr>
<td>Residence:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Farm</td>
<td>3.1</td>
<td>1.3</td>
<td>.7</td>
<td>23</td>
</tr>
<tr>
<td>Nonfarm</td>
<td>44.3</td>
<td>7.5</td>
<td>6.5</td>
<td>15</td>
</tr>
<tr>
<td>Race of head:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>White</td>
<td>42.7</td>
<td>6.8</td>
<td>5.2</td>
<td>12</td>
</tr>
<tr>
<td>Nonwhite</td>
<td>4.7</td>
<td>2.1</td>
<td>2.0</td>
<td>42</td>
</tr>
<tr>
<td>Age of Head:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14-24</td>
<td>2.7</td>
<td>.8</td>
<td>.7</td>
<td>26</td>
</tr>
<tr>
<td>25-54</td>
<td>30.6</td>
<td>3.6</td>
<td>4.0</td>
<td>13</td>
</tr>
<tr>
<td>55-64</td>
<td>7.4</td>
<td>1.3</td>
<td>1.0</td>
<td>13</td>
</tr>
<tr>
<td>65 and over</td>
<td>6.7</td>
<td>3.1</td>
<td>1.5</td>
<td>24</td>
</tr>
<tr>
<td>Type of family:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Husband-wife</td>
<td>41.3</td>
<td>6.2</td>
<td>5.0</td>
<td>12</td>
</tr>
<tr>
<td>Wife in paid labor force</td>
<td>13.4</td>
<td>1.0</td>
<td>.9</td>
<td>7</td>
</tr>
<tr>
<td>Wife not in paid labor force</td>
<td>27.9</td>
<td>5.1</td>
<td>4.1</td>
<td>15</td>
</tr>
<tr>
<td>Other male head</td>
<td>1.2</td>
<td>.3</td>
<td>.2</td>
<td>17</td>
</tr>
<tr>
<td>Female head</td>
<td>4.9</td>
<td>2.3</td>
<td>2.0</td>
<td>40</td>
</tr>
<tr>
<td>Number of persons in family:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>15.3</td>
<td>4.6</td>
<td>2.5</td>
<td>16</td>
</tr>
<tr>
<td>3</td>
<td>9.8</td>
<td>1.5</td>
<td>1.0</td>
<td>11</td>
</tr>
<tr>
<td>4</td>
<td>9.4</td>
<td>1.0</td>
<td>1.0</td>
<td>10</td>
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<tr>
<td>5</td>
<td>6.3</td>
<td>.7</td>
<td>.9</td>
<td>14</td>
</tr>
<tr>
<td>6</td>
<td>3.3</td>
<td>.4</td>
<td>.6</td>
<td>19</td>
</tr>
<tr>
<td>Number of related children under age 18:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>None</td>
<td>19.1</td>
<td>4.7</td>
<td>2.4</td>
<td>13</td>
</tr>
<tr>
<td>1</td>
<td>8.7</td>
<td>1.4</td>
<td>1.1</td>
<td>12</td>
</tr>
<tr>
<td>2</td>
<td>8.6</td>
<td>1.0</td>
<td>1.0</td>
<td>11</td>
</tr>
<tr>
<td>3</td>
<td>5.5</td>
<td>.7</td>
<td>1.0</td>
<td>17</td>
</tr>
<tr>
<td>4</td>
<td>2.9</td>
<td>.4</td>
<td>.6</td>
<td>23</td>
</tr>
<tr>
<td>5</td>
<td>1.4</td>
<td>.3</td>
<td>.5</td>
<td>36</td>
</tr>
<tr>
<td>Number of earners:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>None</td>
<td>3.7</td>
<td>2.8</td>
<td>2.0</td>
<td>53</td>
</tr>
<tr>
<td>1</td>
<td>20.8</td>
<td>3.9</td>
<td>3.3</td>
<td>16</td>
</tr>
<tr>
<td>2</td>
<td>17.3</td>
<td>1.8</td>
<td>1.5</td>
<td>9</td>
</tr>
<tr>
<td>3 or more</td>
<td>5.6</td>
<td>.3</td>
<td>.4</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: Data included in Table 2, designed by the author, comes from a similar, but more detailed, table available: Orshansky, “Counting the Poor,” 12.
Orshansky was well aware of the flaws of her measure, and recognized that it should
only be temporary. Of her new calculation, she wrote:

Though one may question the merits of a food-income relationship alone as a
poverty index, it probably serves as an interim guide to equivalent levels of
living among families in different situations. Additional variables could improve
it, as, for example, allowance for geographic variables of community size and
region, and indeed further study of the income-consumption patterns
themselves. Even as it stands, however, this index is undoubtedly a better leveler
than a single income applied across the board.”

In addition to numerous self-admitted shortcomings of the Orshansky method, two purely
statistical flaws call into question its accuracy. First, Orshansky’s calculation based consumption
data on a 1955 USDA survey; thus, the multiplier of three came about based on outdated data. In
1955, food costs were relatively higher as compared to when the measure was developed, and it
was later noted that a higher multiplier-- or better still, a multiplier that was updated over time--
would be more accurate.26 And second, in developing the new thresholds, Orshansky used the
Census Bureau's Current Population Survey (CPS), which was the only reliable source of
nationally representative income data. This meant that even though the CPS used a before-tax
money concept, Orshansky had to apply her poverty thresholds to the CPS income data knowing
that these thresholds themselves also used the after-tax money concept embedded in the USDA’s
survey (from which the multiplier was derived). Orshansky was aware of this inconsistency but
had little alternative. Accordingly, she reasoned that the result would yield “a conservative
underestimate” of poverty.27

25. Ibid.

piece reads: “May 3, 1968, memorandum from Ida C. Merriam, Assistant Commissioner, Office of
Research and Statistics [SSA] Subject: The SSA poverty and low income cut-off points for 1967 incomes;
and May 7, 1968, memorandum from Robert L. Stein Bureau of the Census to Professional Staff, Poverty
Statistics Section Bureau of the Census-- Subject: Possible changes in poverty definitions.” Only the
Merriam memo provides the specifics of SSA’s proposal about the indexing of the thresholds.

27. Ibid.
Towards the end of 1967 there was a growing awareness, particularly within the Social Security Administration, that the poverty threshold was not keeping pace with the increasing standard of living. Because the threshold was based on the cost of food—which was declining relative to increases in the overall cost of living—SSA decided to revise the thresholds upwards by tying them to USDA’s “low-income” food plan rather than the lower “economy” food plan. Accordingly, SSA began to implement changes to revise the poverty thresholds based on the new understanding of the cost of food. By June of 1968, SSA had poverty figures reflecting both the original Orshansky calculations as well as new revisions. One month later, the Office of Statistical Standards at the Bureau of the Budget (now referred to as the Office of Management and Budget) overruled SSA’s decision to update the measure and created an Interagency Policy Committee to review the line.\footnote{For a discussion of the statistical merits of SSA’s proposed revisions see Mollie Orshansky, \textit{Memorandum for Dr. Daniel P. Moynihan, Subject: History of the Poverty Line} (July 1, 1970), reprinted in, \textit{The Measure of Poverty: Technical Paper I, Documentation of Background Information and Rationale for Current Poverty Matrix} (Washington, D.C.: U.S. Department of Health, Education, and Welfare, 1977), compiled by Mollie Orshansky, 235-236, http://aspe.hhs.gov/poverty/papers/Measure-of-Poverty-tech-paper-1.pdf (accessed November 7, 2011) and Fisher, “The Development and History of the Poverty Thresholds.” Footnote 38 of the Fisher piece reads: “July 16, 1968, letter from Raymond T. Bowman, Assistant Director for Statistical Standards, [Bureau of the Budget] to A. Ross Eckler, Director, Bureau of the Census. Copies of the letter were sent to CEA, OEO, and SSA “in order that the major agencies concerned in this problem will be informed.”}

Given the indisputable statistical logic behind SSA’s decision to update the measure, political interests likely played a role in the Bureau of the Budget’s decision to block the publication of a revised measure which would have resulted in an uptick in the number of Americans counted as poor. Under the original Orshansky measure, the Johnson Administration would have been able to boast that the number of poor Americans had declined by 5.6 million over the previous three years. But under SSA’s new calculations, 2.8 million additional
Americans would have been counted as poor. Though these retrospective figures did nothing to change the daily realities of the individuals and families behind them, the implications on the Johnson Administration’s “War on Poverty” made the update a political liability. In the words of Merton J. Peck, who was a member of the Council of Economic Advisers, “from the political point of view one simply could not increase the poverty level in a year when employment was good.”

In 1969, the Interagency Policy Review Committee made two adjustments to the Orshansky measure. First, it determined that rather than update the thresholds based on changes in the cost of food, changes in the Consumer Price Index would determine annual updates. And second, based on data from the USDA, the farm thresholds were adjusted upwards to represent 85 percent rather than 70 percent of corresponding nonfarm poverty thresholds.

On August 29, 1969, the updated Orshansky thresholds became the official United States poverty measure. The Bureau of the Budget issued a directive giving the Census Bureau the responsibility for annually publishing poverty statistics based on the revised calculations, but no agency was given the responsibility or the authority to maintain, update, or research the measure. In 1978, this directive was replaced with Statistical Policy Directive 14, which remains in effect today. Accordingly, changes to the measure may only originate from a


30. Fisher, *The Development of the Orshansky Poverty Thresholds*. In a personal telephone conversation between Gordon M. Fisher and the author on November 7, 2011, Fisher noted the “CEA member” cited was actually Merton J. Peck, one of the three members of the CEA. This information updates footnote 12 in Fisher, “The Development and History of the Poverty Thresholds.”


32. Ibid.

President’s Executive Order or congressional legislation. No other major economic statistic defined by such a directive exists— all others fall under the control of U.S. official statistical agencies.\textsuperscript{34}

\textbf{Use of the Poverty Thresholds to Develop Poverty Guidelines}

There are two slightly different versions of the official U.S. federal poverty measure: the poverty thresholds, which were described in the previous section, and the poverty guidelines. The poverty thresholds are used primarily for statistical purposes, while the poverty guidelines are a simplified version of the poverty thresholds and are used for administrative purposes, such as determining financial eligibility for certain federal programs. According to a 2007 Congressional Research Service estimate, the poverty guidelines are a determining factor for eligibility for 82 federal programs.\textsuperscript{35}

In early 1965, due to an internal memo, the Research Division within the Office of Economic Opportunity (OEO) began using the Social Security Administration’s poverty measure (developed by Orshansky) as a guideline for determining eligibility for anti-poverty programs, a purpose that the President’s Council of Economic Advisers, the Bureau of the Budget, and Orshansky herself had expressly warned against.\textsuperscript{36}

As required by law, the poverty guidelines are published annually and portray a simplified version of the poverty thresholds for the purpose of determining programmatic

\begin{quote}


\end{quote}
eligibility. One notable difference, however, is that separate—and elevated—poverty guidelines are issued for both Alaska and Hawaii. Despite regional differences in the cost of living throughout the 50 states, the Office of Economic Opportunity implemented these separate poverty guidelines as an administrative practice beginning in the 1966–1970 period.\textsuperscript{38}

Because the annual publication of poverty data was not statutorily mandated, it was difficult for Congress to plan annual budgets since estimated government outlays relied on having an accurate assessment of the number of poor. Accordingly, in 1972, partly due to the efforts of Senator Adlai Stevenson, among others, legislation was enacted requiring the annual publication and method of calculation of the poverty thresholds. This legislation was poorly drafted and represents a missed opportunity for creating a more meaningful—and less direct—link between the thresholds and guidelines.\textsuperscript{39}

**How the U.S. Measure Has Performed Over Time**

The official U.S. poverty measure is largely considered to be an absolute measure. This is because it is indexed solely to the CPI and does not reflect changes in what is considered an essential good or how households at different points on the income distribution fare relative to one another. As was previously noted, the relative cost of food changed dramatically between the 1950s and 1970s, but U.S. measure did not account for such compositional changes; it fails to


\textsuperscript{38} Ibid., 3638.

take into consideration changes in the overall economy (in terms of comparative wages and prices) and changes in standard of living. As wages rise and technology changes, the amenities required to fully participate in society change as well. In 1963, women were far more likely to stay at home and raise children; thus, child care was not considered a necessary expense. Since then, the number of female-headed, single-parent households and the number of households in which both parents work full time have greatly increased and have caused a corresponding increase in the demand for child care. Similarly, technological changes call into question the appropriateness of the U.S. measure, or any absolute measure. Personal computers and cell phones did not exist in 1963, but arguably, living without either item in 2012 furthers the cycle of poverty as they can be referred to as “labor saving household goods.” If one can only receive communication when near a fixed land line phone, the person is put at a comparative disadvantage in the job market. As economist Victor R. Fuchs has observed, “Today’s comfort or convenience is yesterday’s luxury and tomorrow’s necessity. In a dynamic society it could hardly be otherwise.”

And while real wages may have increased significantly since the 1960s, it is notable that the poverty thresholds have neither kept pace with average wages nor aligned with the public’s perception of what constitutes poverty, as they did in when they were created. As Figure 1 illustrates, public opinion estimating the poverty threshold closely correlates with both 50 percent of mean and median income. The threshold of $3,000 annual income for a family of

40. Fisher, *Is There Such a Thing as an Absolute Poverty Line Over Time?*

41. Haveman and Mullikin, “Alternatives to the Official Poverty Measure.”

42. Vaughan, *Exploring the Use of the Views of the Public,* 32.

four proposed by the CEA in 1964 was just under 50 percent of the median family income of $6,600 and was consistent with public polling. In 2007, responses to the Gallup “get-along” poll showed that, on average, the public believes a family of four needs to earn at least $52,087 per year with a slightly lower median response of $45,000. The poverty threshold for a family of four was $21,203 in 2007. Furthermore, if the current thresholds are “backcast” into years before 1964 (as shown in Figure 2), the corresponding thresholds would have represented a vastly higher share of median income. In other words, using the official definition of poverty adjusted for CPI and applying it to 1947, for example, would have yielded a poverty rate of 26 percent with a pre-tax threshold equal to 69 percent of median income. And today the poverty thresholds rest at a much lower percent of median income. The government considers a family of four to be poor if it earned less than $22,314 in 2010 — about 30 percent of the median income.


46. Vaughan, Exploring the Use of the Views of the Public, 63.
Figure 1. Alternate poverty measures in current dollars, 1947-2007

Figures 1 and 2 make it very clear that the current U.S. poverty thresholds have become increasingly disconnected from both public opinion and median income over time. Such figures make it evident that the method of updating the measure over time is flawed; or, at a minimum, that the environment in which the original threshold was determined was much different than today’s. The next chapter seeks to demonstrate how other countries have struggled and attempted to address the issue out outdated, outmoded, or unpopular measures of poverty by creating new measures.
CHAPTER III

AN ANALYSIS OF DIFFERENT METHODS OF MEASURING POVERTY IN OTHER WESTERN COUNTRIES

The concept of measuring poverty is notably an Anglo-Saxon idea. Only the United States and United Kingdom have “official” measures of poverty.\(^1\) The United Kingdom’s official measure is for child poverty, based on the number of households below 60 percent of median income.\(^2\) The European Union also utilizes indicators based on a relative poverty line set at 60 percent of median adult income.\(^3\) In Canada, it is generally agreed that poverty refers to the intersection of low-income and other dimensions of “social exclusion,” and the government regularly publishes the number of households with incomes below a series of “low-income cutoffs.”\(^4\) The primary and government-approved poverty measure used in Ireland is “consistent poverty,” which identifies the proportion of the population that suffers both material and economic hardship. Specifically, it measures the share of the population living with incomes below 60 percent of the median and deprived of two or more items considered to be essential.\(^5\)


Measuring Poverty in the United Kingdom

The U.K. has several ways of measuring poverty which stem from a widely accepted relative measure but were then developed to take into account absolute factors for the purpose of measuring progress combating child poverty over time.

*Households Below Average Income.* The most commonly accepted, though unofficial, measure of poverty in the United Kingdom is the Household Below Average Income (HBAI), which is produced annually in a report by the Department of Work and Pensions (DWP) and measures the number of households below 60 percent of median income. It is the principal source of information on the size and characteristics of the low-income population based on various relative and absolute income thresholds guided by mean and median household income measured before and after housing costs. Like any poverty measure, it is made up of two critical components: a resource or income definition and a threshold definition.

Since 1994, low-income data for the purposes of determining resources have been derived from the *Family Resources Survey* (FRS), and before that the smaller *Family Expenditure Survey* (FES). The basic methodology behind HBAI is to calculate individuals’ “equivalized” household income and then rank them by median income. Resources counted as income in the calculation of HBAI include:

- net earnings
- profit or loss from self-employment
- all social security benefits and tax credits, including Social Fund grants
- occupational and private pension income
- investment income
- maintenance payments
- top-up loans and parental contributions for students
- educational grants and payments
- the cash value of certain forms of income in kind, such as free school meals, Healthy Start vouchers and free TV licenses for those over age 75 (where data is available).
The HBAI methodology then subtracts from the above resources any money or in-kind benefits that go towards:

- income tax payments
- National Insurance contributions
- contributions to occupational, stakeholder and personal pension schemes
- council tax/domestic rates
- maintenance and child support payments
- parental contributions to students living away from home
- student loan repayments

The threshold part of the measure, quite simply, is set at 60 percent of median income. The expansive income definition outlined above is “equivalized” to account for variations in household size and composition. Since a single person on a given income is likely to enjoy a higher standard of living than a family of four on the same income, it is necessary to create these equivalence scales. In 2009-2010, 60 percent of median household income, before housing costs, was equivalent to £248 ($389 USD) per week for a couple with no children, £166 ($260 USD) per week for a single adult, and £379 ($595 USD) per week for a couple with two children aged five and 14. Although it is not an “official” poverty threshold, it is widely used by commentators and in international studies.

**The Official Measure of Child Poverty.** In 2003, the HBAI was used as the basis for the formation of an “official” measure of child poverty. The full measure is made up of three components:

- low-income measured relative to 60 percent of median income;
- low-income measured in absolute terms; and
- a combined measure of material deprivation and low-income.

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7. Ibid., 4.

**Relative Low-Income.** To measure whether the incomes of the poorest families are keeping pace with the growth of incomes in the economy as a whole, the relative low-income measure monitors the number of children living in households below 60 percent of contemporary median household income.\(^9\)

**Absolute Low-Income.** To measure whether the incomes of the very poorest families are rising in real terms, the absolute low-income measure monitors the number of children living in families with incomes below a particular threshold which is adjusted only for inflation-- set for a couple with one child at £210 ($330 USD) a week in 2003.\(^10\)

**Material Deprivation and Low-Income Combined.** To provide a wider measure of people’s living standards, the material deprivation and low-income combined measure monitors the number of children living in households that are both materially deprived and have an income below 70 percent of contemporary median equivalized household income.\(^11\)

To determine deprivation, through existing surveys, families are asked whether they have certain items or abilities, and if they do not whether it is by choice or the inability to afford them. Initially, lack of the following goods or abilities was considered an indication of deprivation:

For adults:

- The means to keep your home adequately warm
- Two pairs of all-weather shoes for each adult
- Enough money to keep your home in a decent state of repair
- A holiday away from home for one week a year, not staying with relatives
- Ability to replace any worn out furniture

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10. Ibid.

11. Ibid.
• A small amount of money to spend each week on yourself, not on your family
• Regular savings (of £10 [$16 USD] a month) for rainy days or retirement
• Insurance of contents of dwelling
• Ability to have friends or family for a drink or meal at least once a month
• A hobby or leisure activity
• Sufficient funds to replace or repair broken electrical appliances, such as refrigerator or washing machine

For children:

• A holiday away from home at least one week a year with family
• Swimming at least once a month
• A hobby or leisure activity
• Friends round for tea or a snack once a fortnight
• Enough bedrooms for every child over 10 of different sex to have his or her own bedroom
• Leisure equipment (for example, sports equipment or a bicycle)
• Celebrations on special occasions such as birthdays, Christmas or other religious festivals
• Play group/nursery/toddler group at least once a week for children of pre-school age
• Going on a school trip at least once a term for school-aged children

Importantly, the DWP acknowledged that for the material deprivation calculation there was a need “to ensure that over time the suite of questions we have identified through our analysis continue to be the best discriminators in terms of poor and non-poor families. Therefore we may need to add new indicators from time to time as new goods and services are required to attain social inclusion. Advice from experts in this area is to review the deprivation measures every few years.”

According to the government, long-term poverty is being reduced if all three indicators move in the right direction. The government of the U.K. went through a thorough consultation and public comment process in developing this new tiered measure of poverty and aimed to

12. Townsend and Kennedy, Poverty Measures and Targets, 72.


create a measure that was “robust to scrutiny, credible with the public and consistent over time.”

**Measuring Poverty in Canada**

Like most countries, Canada has no official poverty line. However, the Low-Income Cutoffs (LICOs), published by Statistics Canada, have been widely accepted as a semi-official poverty line since the 1960s. Two additional measures, the Market-Basket Measure (MBM) and the Low-Income Measure (LIM), are also widely used.

**The Low-Income Cutoff (LICO).** A low-income cutoff is an income threshold below which a family is likely to spend a significantly higher percentage of its income on food, shelter, and clothing than the average family and is based on biennial survey data from the Family Expenditure Survey (FAMEX). More specifically, FAMEX data is analyzed to find the average proportion of family income spent on food, shelter and clothing. Twenty percentage points are then added to calculate the LICO. A series of LICOs is estimated, which take into account differences in family size, population of area of residence, and region of Canada. The LICO is also annually adjusted for inflation based on the previous year’s CPI, and rebased periodically with new FAMEX data.

The original LICO was calculated in 1967 based on the 1959 FAMEX, which found that, on average, Canadian families spent 50 percent of their incomes on food, shelter and clothing. Statistics Canada analysts M. C. Wolfson and J. M. Evans explained the logic behind the

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addition of 20 percentage points to determine the LICO by saying, “As an arbitrary choice, families spending more than 70 percent of their incomes on these ‘necessities’ were held to be in ‘straitened circumstances’ relative to the rest of the population.”\(^{18}\) Since 1967, Statistics Canada has updated the average proportion of income spent on food, shelter and clothing, based on subsequent FAMEX surveys, but maintained the 20 percent parameter.\(^{19}\)

The LICO was initially created based on relative figures. In more recent years, its method of update has become absolute. The LICO was traditionally classified as a relative poverty measure because it was rebased every few years, resulting in a slight increase that reflected real growth and a drop in the average of expenditures on necessities as a percentage of income. However, the LICO has not been rebased since 1992 and is based on household spending patterns in that year. Statistics Canada has made it clear it has no intention of ever rebasing the LICO.\(^{20}\) Similar to the United States, the cessation of rebasing the poverty measure has led to a decrease in purchasing power for those living at the cutoff line.

\(^{18}\) Ibid.

\(^{19}\) Ibid.

The Low-Income Measure (LIM). The LIM uses a threshold of 50 percent of the median income of families. According to Statistics Canada, this threshold can be “somewhat arbitrary.”\textsuperscript{21}

The European Union, for example, has chosen 60% for its conceptually similar low-income threshold and the OECD, 70%.\textsuperscript{22} There is an adjustment so that family size is taken into

\textsuperscript{21} Kevin McQuillan and Zenaida R. Ravanera, trans., \textit{Canada's Changing Families: Implications for Individuals and Society} (Toronto: University of Toronto Press, Scholarly Publishing Division, 2006), 142.

consideration before the median is calculated (this uses family equivalence scales). The LIM is measured using both before-tax and after-tax incomes.

The LIMs make no adjustment for region or urban/rural differentiations. Because LIMs require little adjustment aside from family size equivalence scales, they are simple to produce and updated annually. Since the LICO is not rebased annually, the years in which they have been rebased reflect more pronounced changes to the threshold and, thus, the number of individuals counted as poor. Accordingly, the decision to rebase the LICO has political ramifications, whereas the LIM is a simpler statistic and not as complicated by political interests.

**The Market Basket Measure (MBM).** The MBM was created to reflect the actual cost of a modest, basic standard of living.\(^{23}\) The MBM set an income cutoff based on the estimated cost of a basket of goods for various geographically diverse communities in Canada. The components of the basket for food, shelter, clothing, transportation, and other needs for the reference family of four in 2004 are shown below.

\(^{23}\) Kolkman, *Issue Update*. 

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36
Table 3. Components of the market basket for the Canadian MBM for a reference family of four in 2004

<table>
<thead>
<tr>
<th>Component</th>
<th>Valuation Technique</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>Costing a food basket.</td>
<td>$6,025-$7,651</td>
</tr>
<tr>
<td>Shelter</td>
<td>Average of the median rent (including utilities) for 2 and 3 bedroom apartments in community</td>
<td>$5,559-$12,871</td>
</tr>
<tr>
<td>Clothing &amp; Footwear</td>
<td>Costing a basket taken from Canadian Poverty Measures</td>
<td>$2,126-$2,294</td>
</tr>
<tr>
<td>Transportation</td>
<td>Cost of a car in rural areas; rapid transit in urban areas (two adult passes plus one $16 taxi ride per month).</td>
<td>$1,330-$2,589 in urban areas. $3,497-$4,291 in urban areas without public transport, or rural areas</td>
</tr>
<tr>
<td>Other</td>
<td>Roughly 2/3rds of the median spending on other items of the second decile.</td>
<td>$5,468-$6,561</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>$22,514-$30,121</td>
</tr>
</tbody>
</table>

Source: Chart recreated from a chart including identical information from Shillington and Lasota, Existing Measures, 21.

The income measure used to determine the MBM, as defined by Human Resources and Social Development Canada (HRSDC), is disposable family income described as:

The sum remaining after deducting from total family income the following: total income taxes paid; the personal portion of payroll taxes; other mandatory payroll deductions such as contributions to employer-sponsored pension plans, supplementary health plans and union dues; child support and alimony payments made to another family; out-of-pocket spending on child care; and non-insured but medically-prescribed health-related expenses such as dental and vision care, prescription drugs and aids for persons with disabilities.24

The MBM was established in 2003 and is the newest of Canada’s three prominent poverty measures. The government developed the measure out of frustration; the LICO was perceived as a moving target: as incomes rose, so too did the poverty threshold. The MBM provided a

measure that would not move up or down based on relative household income changes, but rather expenditures on necessities (which increase over time but at a lower rate than income increases).\textsuperscript{25}

Furthermore, like the U.K.’s child poverty measure, the MBM was developed, in part, due to child poverty alleviation efforts. Specifically, the MBM was intended to evaluate the new national child benefit. According to Canadian poverty measurement experts Richard Shillington and Michelle Lasota, “HRSDC was directed to construct a basket that was more generous than the subsistence levels calculated by the Fraser Institute, but which fell short of the LICO, which reflected social inclusion.”\textsuperscript{26}

In June 2010, Human Resources and Skills Development Canada issued its \textit{First Comprehensive Review of the Market Basket Measure of Low-Income: Final Report}.\textsuperscript{27} One of the changes made in the MBM as a result of this review was to add “computer and Internet services” to the “other” component of the market basket. This comprehensive report and review of the MBM was widely criticized upon its release. One commenter questioned its validity due to little public awareness of the review as well as limited and selective consultation, going on to claim the report “resulted from closed door discussions between two federal Ministries with input from officials from provincial and territorial governments.”\textsuperscript{28} However, the fact that additional components have been added reflects a general acceptance that human needs change

\begin{itemize}
  \item 26. Shillington and Lasota, \textit{Existing Measures}.
  \item 28. Kolkman, \textit{Issue Update}.
\end{itemize}
over time, and that is not as “absolute” of an approach as is often suggested.\textsuperscript{29} This is particularly interesting in light of the fact that the LICO, widely considered a relative measure, has in recent years become more absolute due to the lack of any rebasing.

\textbf{Measuring Poverty in Ireland}

In Ireland, the Central Statistics Office (CSO) derives poverty data from the annual Survey on Income and Living Conditions (SILC). The SILC is used to calculate three commonly used poverty measures to determine: the number of people at-risk-of-poverty, experiencing material deprivation, and in consistent poverty.\textsuperscript{30}

\textbf{The At-Risk-of-Poverty Rate.} This measure, like that commonly used in England, Canada, the European Union, and most OECD countries, sets the poverty threshold at 60 percent of median income. The formula used to determine a household’s income is a family’s gross income less any tax and social insurance. The components of gross household income are:

- Gross employee cash or near cash income
- Gross non-cash employee income
- Employer’s social insurance contributions
- Gross cash benefits or losses from self-employment
- Value of goods produced for own consumption
- Pension from individual private plans
- Income from rental of property or land
- Regular inter-household cash transfers received
- Interests, dividends, profit from capital investments in unincorporated business
- Income received by people aged under 16
- Social transfers including:
  - Unemployment related payments
  - Old-age related payments
  - Family/children related allowances including
    - Maternity/adoptive benefit

\begin{itemize}
\end{itemize}
- Child benefit
- Single parent allowances
- Carers’ benefit
- Housing allowances such as:
  - Rent supplement
  - Free phone/electricity etc.
  - Fuel allowances
  - Exceptional needs payments
- Survivors’ benefits
- Sickness benefits
- Disability benefits
- Education-related allowances
- Social exclusion not elsewhere classified

Subtracted from this definition of gross income are:

- Employer’s social insurance contributions
- Regular inter-household cash transfer paid
- Tax on income and social insurance contributions

A family or individual is considered to be at-risk-of-poverty if income, as calculated above, is less than 60% of the median. Though in Ireland this measure is referred to as the at-risk-of-poverty measure, it is also commonly known as relative or income poverty.

**Deprivation Index.** This measure seeks to account for access to resources other than income and identify individuals and families who may be excluded from participating in activities considered to be the societal norm. The measure is based on eleven basic deprivation indicators which reflect whether a family:

1. Owns two pairs of strong shoes for every family member
2. Owns a warm waterproof overcoat for every family member
3. Can purchase new (not second-hand) clothes
4. Consumes a meal with meat, chicken, fish (or vegetarian equivalent) every second day
5. Consumes a roast joint or its equivalent once a week

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32. Ibid., 16.

33. *Poverty in Ireland.*
6. Had to go without heating during the last year through lack of money
7. Is able to keep the home adequately warm
8. Is able to buy presents for family or friends at least once a year
9. Is able to replace any worn out furniture
10. Has family or friends for a drink or meal once a month
11. Had a morning, afternoon or evening out in the last fortnight for entertainment

If unable to enjoy two or more of the eleven listed items or activities, individuals and families are considered to be experiencing enforced deprivation. Notably, this is enforced deprivation and not reflective of a personal choice not to have these items.

**Consistent Poverty.** This measure accounts for the number of individuals who experience both enforced deprivation and are at risk of poverty. Accordingly, an individual is defined as being in consistent poverty if they are:

- Identified as being at risk of poverty; and
- Live in a household deprived of (due to an inability to afford) two or more of the eleven basic deprivation items from the deprivation measure.

The consistent poverty measure, also known as the combined income-deprivation measure, is the country’s primary measure as well as the official method used to set (and evaluate progress towards) the national poverty target in Ireland.

Over the course of the past half decade, governmental attempts in the U.S. to update or supplement the official poverty measure have had little in common with the approaches taken in the U.K., Ireland, and Canada. Furthermore, efforts to create a new official measure in the United States have been unsuccessful. As the next chapter will discuss, despite interest and attempts by nearly every Administration since President Johnson as well as Members of Congress, the U.S. official poverty measure has remained stagnant.

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34. *Survey on Income*, 16.
35. Fremstad, *Measuring Poverty and Economic Inclusion*.
37. Fremstad, *Measuring Poverty and Economic Inclusion* and *Survey on Income*. 
CHAPTER IV
ATTEMPTS TO UPDATE OR ALTER THE U.S. POVERTY MEASURE

While experts agree that the current U.S. measure is deeply flawed, there is a lack of consensus regarding what a new measure--or measures--might look like. Furthermore, with every passing year, the official measure becomes more outdated, making a meaningful change more notable, noticeable, and have greater ramifications. Since the United States is unique in that the official poverty measure is directly related to many social assistance benefits, a shift in who is counted as poor would have far-reaching implications. As a result, the conversation over “how to best change the measure” is often overshadowed by the question of “who is affected and what will it cost to change the measure?”

Since its development in the 1960s, government agencies as well as outside academic researchers have issued a number of studies and reviews of the current, official poverty measure. The Nixon Administration, the first Administration after Johnson’s, was one of several that sought to alter the poverty measure. Taking office on January 20, 1969, President Nixon reassessed the existing measure in an attempt to downplay the problem of poverty and dismantle the programs created by President Johnson’s Great Society, and specifically, the “War on Poverty.” In fact, the Nixon Administration took issue with the term “poverty” itself. During the Administration, the Census Bureau replaced the word “poverty” with “low-income level” in its reports.¹ In 1970, 1971, and again in 1973, the OMB took steps to review and update the poverty measure. The most thorough of the three was the 1973 review, which initiated the formation of three interagency subcommittees charged with conducting a thorough review of federal income

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and poverty statistics. One subcommittee was even given the explicit name “Subcommittee on Updating the Poverty Threshold.”

At that time, the OMB was commonly understood to operate under the assumption that the official poverty rate was exaggerated because the income threshold did not account for noncash benefits like food stamps and medical care subsidies. It was editorialized that, “Not only would a redefinition of poverty to account for such income immediately brighten the statistical portrait of the American population, but it would also eliminate some Federal aid programs that now are based on the officially accepted poverty figures.” This may have been a particularly attractive approach to “reducing” poverty given the fact that in 1970, Census data showed the number of Americans in poverty rose by 1.2 million after 10 consecutive years of decline.

Several recommendations resulted from the deliberations of the subcommittees, including the recommendation that the appropriate minimum standard of nutrition and the multiplier derived from the average proportion of family income spent on food be updated every ten years. However, this change, along with all other recommended changes to the poverty measure from the 1973 review, ultimately went un-adopted. This was the last governmental interagency review of the official U.S. poverty measure to recommend significant changes. Had this recommendation been adopted as part of the current official measure, the resulting threshold would have become meaningless in the poverty context. The existing multiplier of three times the cost of food in 1955 indexed to inflation would instead, by 2005, be ten times the cost of the Department of Agriculture’s Thrifty Food Plan (the successor of the


Economy Food Plan) because in 2005, the average family spent one-tenth of its after-tax income on food ($5,304 for a family of four). This in turn would have generated a poverty threshold of $61,000 for that family in 2011, as compared with the current poverty threshold of $22,350 for a family of four.

A provision included within the Education Amendments of 1974 (P.L. 93-380), sponsored by Rep. Carl Perkins and signed into law by President Richard Nixon on August 21, 1974, signaled the next substantive, government-led review of poverty measurement in the U.S. The legislation altered an education-related funding formula that allocated money to school districts based on the number of students who came from families with incomes under $2,000 to a new formula based on Mollie Orshansky’s measure. Section 823 of the Act required that the Assistant Secretary of Education in the Department of Health, Education, and Welfare (HEW) supervise “a thorough study of the manner in which the relative measure of poverty for use in the financial assistance program authorized by Title I of the Elementary and Secondary Education Act of 1965 may be more accurately and currently developed.”


Secretary to ensure the report adjusted for “regional, climatic, metropolitan, urban, suburban, and rural differences and for family size and head of household differences.”

In response to the Section 823 requirement, an interagency Poverty Studies Task Force, of which Mollie Orshansky was a member, was established. Because of the wide use and implications of the measure, by 1974 several agencies and government officials had interest in its revisions and the study mandated by Section 823 was “extended to include implications of the study findings for the poverty-related programs of all affected Federal departments and agencies.” The task force’s final report was submitted to Congress in April 1976 and was comprised of 17 technical papers in addition to a 162-page executive report. The introduction to the report ended with the following paragraph:

This report does not recommend any particular changes in poverty measurement or concept. It shows that there are many alternatives possible, each with its own advantages and disadvantages. Unfortunately, many of the more conceptually desirable changes are among the most difficult to implement. There are options that would increase the poverty count; there are equally valid changes that would reduce it. It can be concluded that any poverty definition may be subject to valid criticism, and that any definition is inherently value laden. Nevertheless, there is an advantage in the continued publication of an official statistical series of a poverty measure as an index of national achievement in reducing the extent of poverty.

In 1979, the Carter Administration’s Justice Department Task Force on Sex Discrimination reported its finding that the poverty thresholds discriminated against women based on the fact that thresholds for male-headed families were higher than those for female-headed families of the same size and composition. During a meeting of the Federal Interagency Committee on Income and Wealth Distribution Statistics, recommendations were made that:

9. Ibid.


The Committee should examine whether the poverty measure appeared to discriminate against women and...determine whether agreement could be reached on ways apparently discriminatory features of the poverty definition could be eliminated within the framework of the current measure....the Committee might wish to make recommendations for other changes which would not be perceived as having a significant impact on the number of persons counted as poor, and which would not significantly modify the structure of the current measure.”

Because the Committee’s final recommendations were issued towards the end of the Carter Administration, they were approved by both the Carter and Reagan Administrations, and the changes weren’t officially enacted until December of 1981. The technical changes included:

- Elimination of the farm/nonfarm differential in poverty thresholds by applying nonfarm thresholds to all families;
- Elimination of the distinction between male-headed and female-headed households;
- An increase in the maximum family size under the poverty thresholds to include families of up to 11 individuals (the prior maximum was 7 individuals).

Within the Reagan Administration there was renewed interest over how and whether to update the poverty measure. Of particular interest, just as to the Nixon Administration, was a change that accounted for non-cash benefits, such as Food Stamps and housing vouchers in the income definition. Such revisions were also of interest to Congress. A Senate appropriations bill for fiscal year 1981 included the following statement:

The official statistics show no significant reduction in recent years in the incidence of poverty, although in-kind benefit programs have expanded greatly. The Committee considers it essential that official poverty statistics reflect, at the earliest possible date, the effects of in-kind benefits. Without such information, Congress and the Executive Branch cannot be certain that Government transfer programs are properly targeted.


13. Ibid.

The Administration began to frequently refer to two additional exploratory poverty measures which the Census developed in the early 1980s as a response to the directive from the Senate Appropriations Committee. These measures, as directed, used an alternative—and more expansive—definition of income to define resources. The new resource definition was compared with either the same thresholds as the official measure, or with similar thresholds updated for inflation using an updated price index reflecting lower inflation rates. These alternative measures tend to show lower levels of poverty than the official measure. However, both annual increases and decreases as well as overall poverty trends remain similar across measures.

By 1983, these new measures and continued research served as evidence for the Reagan Administration’s claim that U.S. poverty was an overstated problem. The official poverty rate for 1982, released in September of 1983, showed that poverty went up a full percentage point between 1981 and 1982, rising to 15 percent, the highest rate reported since the measure’s inception. In November of 1983, OMB Director David Stockman testified on Capitol Hill and rejected these heightened numbers claiming the number of poor was less than two-thirds the total officially reported by the Census. Stockman argued, “The official poverty count based on money income substantially overstates the rate of poverty because it ignores the $107 billion in in-kind medical, housing, food, and other aid that tangibly raises the living standard of many low-income families.” Under an alternative and more accurate measure, he argued, the poverty rate

16. Ibid.
would drop to 9.6 percent. Congressional Democrats challenged Stockman’s “so-called scholarly testimony” claiming that the Administration’s numbers vastly undercounted the poor.\textsuperscript{18}

Two months later, the Census Bureau, in conjunction with OMB, announced the formation of an expert panel, “to review the noncash benefit valuation issues and to make recommendations concerning valuation techniques and methods for integrating these values into the official estimates of poverty.” The eight-member panel’s meeting, which was closed to the public, was scheduled for May 18, 1984. However, several congressional Democrats expressed concern over the closed-door nature of the meeting. Rep. Robert Matsui, along with two anti-poverty groups, filed a lawsuit against the Census Bureau in an effort to make the meeting public. Due to mounting pressure, on May 3, the Census Bureau announced the cancellation of the meeting.\textsuperscript{19} Throughout the remainder of the Reagan Administration, lengthy discussions continued over the measure of poverty: in December of 1985, the Census Bureau held a public conference on the measure of noncash benefits; in January of 1986, the House of Representatives held a hearing on the same topic; in 1986 and 1987, the GAO also issued two reports entitled \textit{Briefing Report to Congressional Requesters: Noncash Benefits: Initial Results Show Valuation Methods Differentially Affect the Poor} and \textit{Report to Congressional Requesters: Noncash Benefits: Methodological Review of Experimental Valuation Methods Indicates Many Problems Remain}, respectively.\textsuperscript{20}

In January of 1990, a year into George H.W. Bush’s presidency, his Administration approved an initiative and formed a working group to improve and make recommendations related to the quality of federal economic statistics and among the statistical indicators examined

\begin{itemize}
\item \textsuperscript{20} Fisher, “The Development of the Orshansky Poverty Thresholds.”
\end{itemize}
was the poverty measure. In January 1990 and February 1991, the President’s Council of Economic Advisers (CEA) issued the working group’s two reports for a total of 38 separate recommendations. The 1990 publication recognized that the existing statistical measures of poverty may not be well suited to measure contemporary poverty and recommended that research be initiated to develop a new benchmark estimate of poverty appropriate to prices, consumption patterns, and family composition in the 1990s. As a response to the working group’s 1990 recommendation, a subgroup on income and poverty measurement was formed and developed a plan to address this recommendation. The plan was presented to the working group in 1990; however, this research was not included among the working group’s recommendations in 1991, and the Census Bureau did not develop a plan to update the measure.

In April of 1990, the Urban Institute published Patricia Ruggles’ book, Drawing the Line: Alternative Poverty Measures and Their Implications for Public Policy. In the book, Ruggles calls for an overhaul not only of the income definition but also of the thresholds. Under her calculations, updated to reflect the spending habits of Americans in the late 1980s, the accurate threshold in 1988 would have been $14,000, or 148 percent of the official threshold of $9,435. Ruggles also proposed that every 10 years, the market basket be redefined to include goods and services that had become necessary over the previous decade. In June of 1990, Congress’ Joint Economic Committee held hearings on the poverty measure. Two months later, in July of 1990, House of Representatives Appropriations Committee Chairman David Obey included $600,000 to fund a study by The National Academy of Sciences (NAS) on how to

21. Ibid.


update the poverty measure. Experts at the time recognized that the modest steps taken by both the Administration and Congress represented more willingness to address the problems of the poverty line than at any time in at least the previous decade. Even so, it was acknowledged at the time that a change to the measure was unlikely. In a *New York Times* article from September of 1990, Jason DeParle outlined the politics behind a shift in the measure:

> Nonetheless, it would be politically difficult for any Administration to change the definition of poverty, and members of the Congress and Administration say that even if such changes were made, they are several years away at the least.

> The re-examination of the issue is occurring after a decade of Republican rule, in which economic fairness has been a major issue. Richard Schmalensee, a member of the Council of Economic Advisers, said that if large numbers of people were newly defined as poor, "the other side will say, 'Aha, we told you the Administration was hiding the number of poor people.'"

> "And if you come up with a lower number," he continued, "they'll say, 'See, the Administration is hiding the number even more.'"

The NAS expert panel was convened in June of 1992, toward the end of the Bush Administration, and conducted a thorough, 30-month study and review of the official U.S. measure and made recommendations for its revision. The panel’s report was published in May of 1995 in a book entitled, *Measuring Poverty: A New Approach*. The panel’s recommendations, which the coming chapter will more thoroughly review, represent the nearest thing to an expert consensus on how to reform the measure to date. Briefly, the panel recommended specific changes to both the income and threshold calculations, provided for geographic adjustments in the cost of living, used new equivalence scales when determining the needs of families, and made recommendations for an alternative way of updating the measure over time. As Mark Greenberg, then at the Center for Law and Social Policy, pointed out a few years later, “1995


25. Ibid.
was probably the worst possible time politically to suggest major changes in the measurement of an ideologically charged indicator of societal well-being such as poverty. The transfer of political power in the House of Representatives in the Fall of 1994 distracted political attention and made any changes in the measure difficult at best.\(^\text{26}\)

Also, in March of that year, in response to a request by Senators James M. Jeffords (R-Vermont), Joseph Lieberman (D-Connecticut), and Daniel Patrick Moynihan (D-New York), the GAO released a report entitled, *Poverty Measurement: Adjusting for Geographic Cost-of-Living Difference*. The report was born out of the Senators’ concern that “the current measure does not adequately recognize that residents of high-cost areas may need higher incomes to adequately meet their basic needs.” Unsurprisingly, these three Senators represented states that rank among the top ten most expensive states.\(^\text{27}\) The GAO report made no definitive recommendation, instead concluding:

The concept of adjusting the measurement of poverty for geographic differences in COL has been seen as problematic, and remains so. We asked recognized experts to review 12 methodologies that illustrate the range of alternative approaches to adjust poverty measurement for geographic COL differences, and there was no consensus among these experts that any one methodology was the most promising for making such an adjustment. The fact that several of these experts suggested additional methodologies, but that no additional methodology was suggested by more than one of the experts, suggests to us that a consensus on any one approach does not exist. Where there does appear to be agreement, however, is that several of the methodologies offer little or no promise of appropriately adjusting the measurement of poverty for geographic COL differences. Further, obtaining a consensus on what items should go into a COL index’s market basket to reflect regional differences in consumption would be difficult.\(^\text{28}\)


Interest in updating the poverty measure continued in Congress, including another request for the
GAO to issue a report describing “various issues involved in updating the federal government’s
measure of poverty” including the identification of “(1) the issues associated with measuring a
family’s economic well-being and setting a standard below which families are considered poor,
(2) the suggestions experts have for addressing these issues, and (3) recent developments on
these issues since the NRC panel issued its report in 1995.”

The report, published in April 1997, concluded:

Some of the issues involved in updating the poverty measure seem to be fairly
well resolved in the scientific community. Although a family’s economic
resources are only a proxy for its ability to obtain an adequate standard of living,
they clearly provide the most reliable data for assessing and comparing families’
ability to meet their needs. Similarly, we found agreement that the measure of a
family’s economic resources should include near-money government benefits
and exclude income and payroll taxes.

But additional discussion and research may be needed for experts to
reach consensus on other issues, such as how to incorporate government medical
assistance in a measure of disposable income and how to accommodate
geographical differences—and changes—in the cost of living. Even though
some adjustments are clearly preferable conceptually, not all will be considered
worth the effort and expense required.

Updating the thresholds, in contrast, poses issues for which scientific
evidence can only bracket a set of alternatives. Determining what constitutes a
minimally adequate standard of living is, in essence, a social judgment that
should reflect both societal and experts’ views (emphasis added). A broader
discussion would also seem to be appropriate for the issue of whether to
incorporate changes over time in standards of living as well as in prices.

The GAO report pointed out extensive problems with the current measure but did not provide
any clear framework for a path forward. The NAS panel’s recommendations, however, did. But
the ambiguities and questions left unanswered by the NAS panel and the handling of those
outstanding issues within Congress, think tanks, and federal agencies have demonstrated why an

29. U.S. General Accounting Office, Poverty Measurement: Issues in Revising and Updating the
(accessed December 3, 2011).

30. Ibid., 22.
NAS-based measure is susceptible to failure over time, just as the Orshansky measure was. The NAS panel cited three important criteria in considering a concept and level for the official U.S. poverty measure: public acceptability, statistical defensibility, and operational feasibility. Absent from these criteria, yet necessary for a meaningful and lasting measure, is some component of public participation and public input in the measurement’s establishment and updating.

CHAPTER V

THE NATIONAL ACADEMY OF SCIENCES (NAS) MEASURE AS THE DOMINANT MEASURE AND ITS USES AND MISUSE IT OVER TIME

The NAS panel’s recommendations specified updating the calculation for both the resource and threshold components of the poverty measure. These recommendations are provided in more detail in Table 4. On the threshold end, the NAS panel proposed that the threshold reflect the need for food, clothing, shelter, and utilities, plus a small portion more for other non-specified necessary expenses. The panel recommended that the threshold itself be established by choosing a point in the income distribution of “reference” families’ expenditures for these items, plus a small multiplier (ranging from 1.15 to 1.25) to account for additional miscellaneous expenses. The panel made no recommendation on exactly where on the income distribution the threshold should be placed but suggested a minimum of 30 percent and an upper limit of 35 percent. The recommended threshold would then be updated each year based on the change in the level of spending on these items. The panel also recommended adjusting the measure to reflect regional differences in the cost of housing.

The NAS panel proposed a widely expanded definition of income/resources but one that would only include disposable resources. Rather than solely include pre-tax cash income, the panel recommended an income definition based on after-tax income and inclusive of non-cash benefits, such as housing vouchers and Food Stamps (now Supplemental Nutrition Assistance, or SNAP). However, the panel recommended subtracting from the resource definition a number of necessary expenditures that reduce disposable income. These included the cost of commuting to work, childcare, and out-of-pocket medical expenses.
Table 4. Elements of the current official measure and proposed NAS measure

<table>
<thead>
<tr>
<th>Element</th>
<th>Current Measure</th>
<th>Proposed Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Threshold Concept</td>
<td>Food times a large multiplier for all other expenses</td>
<td>Food, clothing, and shelter, plus a little more</td>
</tr>
<tr>
<td>1992 level (two-adult/two-child family)</td>
<td>$14,228</td>
<td>Suggest within range of $13,700-$15,900</td>
</tr>
<tr>
<td>Updating method</td>
<td>Update 1963 level each year for price changes</td>
<td>Update each year by change in spending on food, clothing, and shelter over previous 3 years by two-adult/two-child families</td>
</tr>
<tr>
<td>Threshold Adjustments</td>
<td>Separately developed thresholds by family type; lower thresholds for elderly singles and couples</td>
<td>Reference family threshold adjusted by use of equivalence scale, which assumes children need less than adults and economies of scale for larger families</td>
</tr>
<tr>
<td>By family type</td>
<td>No adjustments</td>
<td>Adjust for housing cost differences by region and size of metropolitan area</td>
</tr>
<tr>
<td>Family Resource Definition</td>
<td>Gross (before-tax) money income from all sources</td>
<td>Gross money income, plus value of near-money in-kind benefits (e.g., food stamps), minus income and payroll taxes and other nondiscretionary expenses (e.g., child care and other work-related expenses; child support payments to another household; out-of-pocket medical care expenses, including health</td>
</tr>
<tr>
<td>Data Source (for estimating income)</td>
<td>March Current Population Survey</td>
<td>Survey of Income and Program Participation</td>
</tr>
<tr>
<td>Time Period of Measurement</td>
<td>Annual</td>
<td>Annual, supplemented by shorter term and longer term measures</td>
</tr>
<tr>
<td>Economic Unit of Analysis</td>
<td>Families and unrelated individuals</td>
<td>Families (including cohabiting couples) and unrelated individuals</td>
</tr>
</tbody>
</table>

The panel also recommended a reassessment of the measure every ten years to address the problem of stagnation. The panel asserted that “indeed, it is dismaying that such a process has not been followed for the current poverty measure.”1 It is also important to note that much discussion focused on how to treat health care and the status of being insured relative to a new poverty measure. Indeed, this topic alone is worthy of extensive discussion and debate and has posed difficulties for researchers, but it cannot be fully examined within the confines of this paper, and the author notes this as a limitation. Ultimately, the NAS recommended that medical out-of-pocket expenditures (MOOP), including health insurance premiums, be subtracted from income.2 The panel did not suggest the inclusion of those expenses in the threshold because the wide variation of medical needs across the population would require the development of a large number of thresholds. Not only would this complicate the poverty measure, but year-to-year variability in medical care needs within family types could lead to mistaken poverty classifications.3

Since the release of the NAS report, much activity within the OMB, the Bureau of the Census, the Bureau of Labor Statistics, and outside groups has focused on determining what thresholds would result from the panel’s recommendations and how existing survey data should be updated to ensure all necessary data is collected. In 1997, the OMB under the Clinton Administration convened a federal Interagency Technical Working Group to Improve the Measurement of Income and Poverty. In the same year, the Brookings Institution and the Institute for Research on Poverty (IRP) launched a project to help implement and draw attention

1. Ibid., 43.
2. Ibid., 209.
3. Ibid., 224.
to the alternative measure detailed by the NAS panel. According to a 1998 publication by the IRP, the research agenda was, at least initially, based upon two central assumptions:

- That there should be a new approach to defining poverty for statistical purposes only and that a new threshold would not be used to allocate funds or determine eligibility for programs.
- That a new poverty measure would yield approximately the same number of poor people for a reference year as the official measure.

The Brookings/IRP research project culminated with a multi-day conference at the University of Wisconsin-Madison that brought together 75 individuals from several federal agencies, research and advocacy organizations, public policy students, state officials, and academic researchers concerned with poverty. Although the attendees widely agreed that the official measure must be updated, even by the end of the conference, considerable disagreement remained over both the measure itself as well as how to proceed, including overwhelming contention over the initial assumption of the research agenda that the new measure should--at least initially--yield the same number of poor people as the official measure.

One important point rings true for much of the poverty debate since the release of the NAS recommendations which is that, “the policy community must agree on one alternative to the current measure or acceptance in the broader community will be difficult. If multiple alternatives are proposed, confusion will result and the benefits of an official measure will be lost.” The NAS-based measure, indeed, seems to be the approach that the policy community has


7. Ibid. Footnote 10 of this document states, “This point was made by Ron Haskins, Staff Director of the Human Resources Subcommittee, U.S. House Ways and Means Committee.”
decided upon. However, as was also pointed out by Thomas Corbett in his review of the 1999 conference, the NAS panel’s recommendations, “received critical acclaim as a well-considered analysis of the measure’s flaws and as a set of reasonable remedies, but public-sector response was muted at best.”

In 2004, Democratic staff on the Joint Economic Committee (JEC) proposed their own measure based on the NAS recommendations. This new measure appeared to be strongly influenced by the initial assumption of the IRP/Brookings working group: a new measure must initially have the same poverty rate as the official measure. Though the measure changed the composition of which demographic groups would be counted as poor, it happened to establish an identical poverty rate as the official measure-- 11.3 percent for the year 2000.

Furthermore, unlike the NAS approach, the measure used in the JEC analysis proposed updating the measure in an absolute way based on CPI rather than changing household expenditures on food, clothing, and shelter. Effectively, the JEC staff measure reset the threshold to show an identical poverty rate, but different poverty composition, and proposed remaking the same mistake as in the implementation of the Orshansky measure: the measure would be updated solely based on an inflation index rather than changes in the price of a household budget.

In August of 2007, Rep. Jim McDermott (D-Washington), who then chaired the Ways and Means Committee’s Subcommittee on Income Security and Family Support, held a hearing entitled *Measuring Poverty in America*. The day before the hearing, the Ranking Member of the Subcommittee, Rep. Jerry Weller (R- Nevada), introduced legislation that would have altered the income definition to account for in-kind benefits and tax credits, similar to the experimental


10. Ibid., 2.
measure highlighted frequently during the Reagan Administration.\textsuperscript{11} One year later, Rep. Jim McDermott and Sen. Chris Dodd (D-Connecticut) introduced an alternative bill, the Measuring American Poverty (MAP) Act. Unlike the Weller bill, this legislation would have adjusted both the resource and threshold calculations and was based on the recommendations of the NAS panel. Rep. McDermott and Sen. Dodd introduced an updated version of the MAP Act in 2009. The legislation proposed renaming the current official measure as the “Historical Poverty Measure” while ensuring that the new “Modern Poverty Measure” would not be tied in any way to eligibility for federal programs or the allocation of resources. Though the MAP Act did generate a significant level of attention and a large list of outside endorsements, no version of the legislation was ever brought to a vote in either chamber of Congress.

Because the introduction and reintroduction of the McDermott-Dodd legislation coincided with a severe economic downturn as well as the nearly $700 billion American Recovery and Reinvestment Act (ARRA), an NAS-based measure began to attract greater attention. Under the official measure, many of the programs funded through ARRA had no measurable impact on poverty. The Obama Administration and Democrats in Congress, understandably, had an interest in demonstrating to the public that the stimulus package and prior and subsequent spending on anti-poverty programs was in fact reducing poverty. Several think tanks, and even the Administration, began to highlight statistics showing how ARRA kept millions of families above the poverty line using estimates modeled on an NAS-based measure. Under the Census’ official definition, 43.6 million people were in poverty in 2009, an increase of 3.8 million from 39.8 million in 2008. An analysis by the Center on Budget and Policy Priorities (CBPP) showed that ARRA prevented six million low-income individuals from falling into

poverty between 2008 and 2009 when using an NAS-based poverty calculation. The CBPP analysis examined seven of ARRA’s provisions totaling $205 billion over five years:

- a new Making Work Pay tax credit
- an expanded Child Tax Credit for lower-income working families with children
- an expanded Earned Income Tax Credit
- additional weeks of emergency unemployment compensation benefits
- an additional $25 per week for unemployed workers to supplement their unemployment benefits
- a $250 one-time payment to elderly people and people with disabilities who receive Social Security, SSI, or veterans’ benefits; and
- additional food stamp assistance

Beyond preventing six million Americans from being defined as “in poverty” under an NAS-style approach, the analysis found that ARRA reduced the severity of poverty for 33 million additional individuals. Because the analysis only included seven provisions, these estimates are likely more modest than the poverty rates under a full NAS-based measure.

In March 2009, the Office of Management and Budget’s (OMB) Chief Statistician formed an Interagency Technical Working Group (ITWG) on Developing a Supplemental Poverty Measure (SPM). The group was composed of representatives from the Bureau of Labor Statistics, the Census Bureau, the Economics and Statistics Administration, the Council of Economic Advisers, the Department of Health and Human Services, and OMB. The resulting SPM was to be released annually alongside the official measure beginning in the fall of 2011.

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13. Ibid.


President Obama’s Fiscal Year 2011 budget proposed and requested additional resources to carry out these activities at the Census Bureau and the Bureau of Labor Statistics, and some Members of Congress supported this request, namely Rep. Jim McDermott.16 Congress ultimately did not appropriate corresponding funding, yet the ITWG carried out its recommendations absent funding specifically earmarked for such activities.

In March of 2010, a document entitled “Observations from the Interagency Technical Working Group on Developing a Supplemental Poverty Measure” laid out the group’s consensus for a new SPM and recommendations for the Census Bureau.17 The ITWG decided that the SPM should be largely based upon the NAS panel’s recommendations but informed by subsequent research.18 The observations of the ITWG reflected:

….discussions and recommendations made by the technical working group to the Chief Statistician in the U.S. Office of Management and Budget and the Under Secretary for Economic Affairs in the U.S. Department of Commerce. In cases where there was no consensus within the Working Group, these two individuals made choices that are reflected in the specific recommendations provided.19

Accordingly, those two individuals, Katherine K. Wallman and Rebecca M. Blank respectively, held significant influence over the working group’s ultimate recommendations. Leaving decisions in the hands of these two researchers, though logical, proved problematic and led to thresholds detached from public opinion and human needs. As Richard Bavier has pointed out:

For the purposes of researchers, a strong empirical defense of the poverty line is unnecessary. Any marker of economic status, even one that is arbitrary in the sense that

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18. Ibid., 2.

it has no convincing intrinsic justification, can serve the purposes of economists well as long as it performs its function of measuring variation accurately near the bottom of the distribution.\textsuperscript{20}

A notice and solicitation for public comments on the ITWG’s was published in the Federal Register on May 26, 2010. Though the recommendations of the ITWG closely paralleled the recommendations of the NAS panel, they did include very substantive changes as well as address some of the ambiguities left by the NAS panel. Notably the ITWG observations recommended that the threshold established by the SPM:

- Use a reference sample that includes all family units with exactly two children. This diverges from the NAS recommendations, which use a two-adult, two-child reference family unit.\textsuperscript{21} Notably, this seemingly minor change would lead to a significantly lower threshold (just under $24,400 for all families with two children compared with just under $26,800 for families with two adults and two children in 2010).\textsuperscript{22}
- Define the “family unit” to include all related individuals who cohabit as well as unrelated children, such as foster children, who are cared for by that family unit.\textsuperscript{23}
- Set the threshold at 33\% of expenditures on food, clothing, shelter, and utilities (the NAS panel proposed a range of between 30 and 35 percent).\textsuperscript{24}
- Make adjustments to the thresholds to account for differing shelter costs between those who rent, those who own their home but have a mortgage, and those who own their homes free and clear.\textsuperscript{25}
- Account for some expenditures beyond food, clothing, shelter, and utilities (FCSU) by applying a multiplier of 1.2 to the threshold of expenditures on these items at the 33rd percentile.\textsuperscript{26}

\begin{itemize}
  \item [21.] \textit{Observations from the Interagency Technical Working Group}, 3.
  \item [23.] \textit{Observations from the Interagency Technical Working Group}, 4.
  \item [24.] Ibid. For background and context, this is the level that two-thirds of American families are able to achieve or exceed. The intent here (as under the NAS-based approach) is for the SPM to be calculated by determining the consumption spending of an average household at the 33rd percentile of income—well above extreme deprivation, but below the national median.
  \item [25.] Ibid.
\end{itemize}
percentile of the income distribution. This multiplier represents the midpoint of the NAS panel’s range of 1.15 to 1.25.26

- Use a “three-parameter scale” to improve the adjustments for consumption levels in single-parent families.27
- Establish thresholds based on expenditure data for the previous 5 years, thus giving the SPM thresholds stability over time.28

In regards to the resource definition and the way the measure should be updated over time, the ITWG updated the NAS panel’s recommendations by:

- Recommending that the definition of resources used to calculate the SPM should exclude expenses associated with commuting and child care.
- Ensuring the most recent data on family resources and expenditures on necessary items is used.
- Suggesting that any definitional changes in the SPM be weighed against prior calculations to ensure consistency over time.29

Importantly, also like the McDermott-Dodd legislation, the ITWG’s recommendations for the SPM would not be used for the purpose of determining programmatic eligibility or allocating federal resources.30 These recommendations are summarized in Table 5 below.


28. Ibid.


30. Ibid., 2.
Table 5. Comparison of approaches to measuring poverty

<table>
<thead>
<tr>
<th></th>
<th>Official</th>
<th>NAS</th>
<th>SPM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baseline threshold</td>
<td>Cost of minimally adequate diet</td>
<td>30–36th percentile of for two-adult, two-child families</td>
<td>30–36th percentile of for all two-child families</td>
</tr>
<tr>
<td>Multiplier</td>
<td>Multiplied by 3, as food was approximately one-third of a family’s budget in the 1960s</td>
<td>15–25% to account for additional necessities</td>
<td>15–25% to account for additional necessities</td>
</tr>
<tr>
<td>Equivalence scale</td>
<td>Implicit, in that each family type receives a unique value based on food consumption</td>
<td>Three-parameter scale</td>
<td>Three-parameter scale</td>
</tr>
<tr>
<td>Regional variation</td>
<td>None</td>
<td>Adjust for geographic differences in cost of housing</td>
<td>Adjust for geographic differences in cost of housing</td>
</tr>
<tr>
<td>Annual adjustment</td>
<td>Update for inflation only</td>
<td>Update annually with new expenditure data and for inflation</td>
<td>Update annually with new expenditure data and for inflation</td>
</tr>
<tr>
<td>Elderly</td>
<td>Elderly thresholds are discounted slightly due to perceived lower levels of consumption</td>
<td>Elderly thresholds are not discounted</td>
<td>Elderly thresholds are not discounted</td>
</tr>
<tr>
<td>Income</td>
<td>Pretax income, including cash transfers</td>
<td>Income net of taxes paid and credited, cash and near-cash transfers, child support paid and received, child care expenses, work expenses, and MOOP</td>
<td>Income net of taxes paid and credited (except capital gains tax), cash and near-cash transfers (except the value of school nutrition programs), child support paid and received, child care expenses, and MOOP</td>
</tr>
<tr>
<td>Homeownership</td>
<td>None</td>
<td>None</td>
<td>Set separate thresholds for families that own their homes free and clear of a mortgage</td>
</tr>
</tbody>
</table>

Source: Table 5, recreated by author, included information from a nearly identical chart in Hutto et al.

In November of 2011, the Bureau of the Census issued the poverty rates under the new SPM calculations, which fell very much in line with the recommendations of the ITWG. Not
unlike the measure promoted by the Joint Economic Committee in 2004, the portrait of poverty reflected by the SPM indicated not only a similar poverty rate as the official measure (15.2 percent under the official rate and 16 percent under the SPM), but also a demographic shift. Interestingly, the SPM was less in line with public opinion than prior NAS-based calculations had been. Gallup polling done between 1965 and 1993 (no polling was done after 1993) shows that the average survey response estimate of the poverty threshold for a family of four fell between 118.5 percent and 120.6 percent of the official poverty threshold. An NAS-based measurement, before the updated recommendations from the ITWG, would create thresholds falling at 117.5 percent and 122.1 percent of the official threshold in 2006 and 2007, respectively, making this approach very consistent with public opinion. Yet, the thresholds that resulted from the SPM and based on the ITWG’s recommendations created a threshold at just 110 percent of the official thresholds for 2010. Table 6 below gives a comprehensive comparison between the official rate and the SPM for 2010.

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### Table 6. Number and percent of people in poverty by different poverty measures: 2010

| Region | Area of Metropolitan Division | With Federal Poverty Measure | With Federal Poverty Measure and Health Insurance Coverage | With Federal Poverty Measure and Health Insurance Coverage and Medicaid | With Federal Poverty Measure and Health Insurance Coverage and Medicaid and Other \n|--------|-----------------------------|-----------------------------|----------------------------------------------------------|-------------------------------------------------------------------|------------------------------------------------------------------|
| North East | All \nArea \nDivision | 727 | 152 | 133 | 110 | 82 | 38 | 28 | 25 | 20 | 8 | 5 | 3 | 1 |
| South Atlantic | 100 | 112 | 96 | 82 | 68 | 52 | 44 | 40 | 35 | 28 | 24 | 19 | 15 |
| South Central | 78 | 91 | 77 | 66 | 55 | 47 | 40 | 35 | 31 | 25 | 21 | 17 | 14 |
| South West | 58 | 75 | 64 | 53 | 44 | 37 | 31 | 28 | 24 | 20 | 17 | 14 | 11 |
| West North Central | 99 | 115 | 97 | 84 | 71 | 59 | 49 | 44 | 39 | 35 | 30 | 26 | 22 |
| West South Central | 76 | 97 | 80 | 68 | 56 | 47 | 40 | 36 | 32 | 28 | 24 | 20 | 17 |
| West South Atlantic | 96 | 114 | 97 | 84 | 71 | 59 | 49 | 44 | 39 | 35 | 30 | 26 | 22 |
| Residency | Metropolitan Statistical Area | 32 | 38 | 31 | 27 | 22 | 19 | 16 | 14 | 12 | 10 | 8 | 6 |
| | Other | 42 | 48 | 42 | 37 | 32 | 29 | 26 | 23 | 20 | 18 | 16 | 14 |
| Type of Home | In new home \n(sold) | 177 | 200 | 161 | 142 | 122 | 108 | 96 | 88 | 81 | 73 | 67 | 62 | 57 |
| | In rental home or \nmobile home | 100 | 112 | 96 | 82 | 68 | 52 | 44 | 40 | 35 | 31 | 28 | 24 | 21 |
| | Owns home or \nrents \nmobile home \nbut not \nrented \nrented \nhome \nand \ntenant in \nrented \nhome \nand \nhome \nand \ntenant in \nrented \nhome \nand \ntenant in \nrented \nhome \nand \ntenant in \nrented \nhome \nand \ntenant in \nrented \nhome \nand \ntenant in \nrented \nhome \nand \ntenant in \nrented \nhome \nand \n}
The November 2011 release of the 2010 poverty numbers under the SPM generated significant public attention and it was evident that federal agencies, particularly the Census Bureau, intended to draw attention to the SPM alongside—if not above—the official poverty measure. Headlines that month included:

- U.S. Poverty: Record 49.1 Million Americans Are Poor According to New Census Measures (*Huffington Post*: November 7, 2011)

Articles frequently quoted Census Bureau officials casting this new measure in a positive light and highlighting its benefits over the official measure.\(^{32}\) Indeed, the researchers and measurement experts within the agencies, many of whom have been actively involved in the efforts to implement a new measure for decades, had an understandable desire to shift attention to the SPM and generate public understanding and acceptance of the measure. The introduction and attention to the SPM almost seemed to represent an orchestrated and concerted effort to render the official measure obsolete for all purposes except its role in determining eligibility for federal programs and formula funding.

In the right hands, and with a slightly altered formulation, the Supplemental Poverty Measure could be a useful and reliable new measure. However, the implementation of the SPM, as well as other post-NAS panel proposals, has shown that without mandatory and automatic updating taking into account public input, the measure will be vulnerable to overly politicized

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methods of updating or no updating at all. The inclusion of these factors will lead to a more
widely accepted and defensible measure.

For various reasons (which have intentionally been left unaddressed within the context
of this paper), the idea of a traditional relative poverty measure is unpopular and unlikely to ever
achieve mainstream status in the United States. However, non-relative measures face the
obstacle of difficulty reflecting the changing nature of what is necessary to attain a minimum
standard of living in society. The SPM, through the use of the quasi-relative NAS-style
approach, attempts to address this challenge by tying the threshold to what low-income families
spend on a pre-determined list of necessities. However, this approach is worrisome for a number
of reasons as will be discussed in the following chapter.
CHAPTER VI

FLAWS WITH THE SUPPLEMENTAL POVERTY MEASURE (SPM) AND GENERAL NAS-BASED APPROACH (AND HOW TO GET AROUND THEM)

As the previous chapter demonstrated, the NAS-based approach, and particularly the SPM, is likely the closest thing to a consensus view to date on a new poverty measure. However, this approach is flawed and shares little with the more dynamic and successful approaches of other countries. Examining different components of various measures used, both officially and unofficially, in other countries and even here in the United States can address these flaws.

Problems with the SPM and NAS-Based Approach in General. Four aspects of the SPM demonstrate why it is likely to be unsustainable as an accurate measure over time:

1. **The threshold is automatically updated based only on changes in the cost of food, clothing, shelter, utilities and “a little bit more.”** Such a method of updating inadequately captures the changing needs in society.

2. **There is no mandatory and automatic method of re-evaluating and altering the components of the measure.** Though the measure is supposed to be constantly under review and subject to change, evidence has shown that such a treatment leaves it vulnerable to political calculations and influence. Though the SPM would be reviewed every 10 years, in all likelihood, this review process would be embroiled in the same political calculations that have prevented the implementation of a meaningful poverty measure for the past four decades.

3. **The calculation does not take into account public opinion or public polling.** As was pointed out in an earlier chapter, the SPM is likely less consistent with public opinion than a strictly NAS-based approach and bears no direct relationship to the public perception of where a poverty threshold should be set. Still—to the degree to which the SPM thresholds, or any NAS-based approach for that matter, at any point resemble public judgment—this may be more by design than causation and due to what is likely a concerted effort on the part of those responsible for setting the thresholds. In 1963, the Orshansky-based thresholds also likely matched up with public perception but had no direct or explicit basis in it.¹ Unless the public view on what goods and services are necessary to get by is somehow automatically factored in, any new poverty measure will face the same fate of becoming outdated, and its updating will be overly politicized.

4. **The measure is too complicated and difficult to explain.** In order for a measure to be truly viable, the public has to understand it. Though, when explained, the public widely accepts that the current official measure makes little sense, the public is less likely to

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¹. Though survey data did not exist for 1963, if Vaughan’s assumptions are indeed correct, it is likely that the Orshansky threshold would match up closely with public opinion at the time.
understand the specifics of how the NAS/SPM approach addresses the flaws of the current measure. The more complex and difficult it is for the public--particularly the media--to understand the calculations that go into a measure, the more susceptible it is to manipulation for political gain.

**The Path Forward for a Unique, American, Measure.** Lessons can be learned from the Canadian, British, and Irish methodologies, and the approaches taken in these countries can be combined and altered to create a uniquely American measure. To an equal, if not greater extent, much can be learned from additional poverty research and commentary in those countries, as well as here in the United States. Of particular significance to this discussion is the research done by Stewart Lansley and Joanna Mack related to consensual methods of poverty measurement; work done by the Joseph Rowntree Foundation (the U.K.) and Vincentian Partnership for Justice (Ireland) to determine and update Minimum Income Standards and Minimum Essential Budgets, respectively; and finally, recommendations by Shawn Fremstad at CEPR and influenced by research from Heather Boushey at the Center for American Progress for the implementation of multiple poverty measures, including a “Low-Income + Deprivation Measure.”

**Creating a Public Role in Poverty Measurement.** The idea of adding a public role in developing standard budgets is not a new one. One prominent approach to taking public opinion into account when developing budgets is known as the “consensual budget standards” approach. This approach was developed in Britain by Sue Middleton, Robert Walker, and colleagues at Loughborough University’s Centre for Research in Social Policy (CRSP) on the basis of a proposal by Robert Walker. Gordon M. Fisher, career public servant in the Office of the Assistant Secretary for Planning and Evaluation at the U.S. Department of Health and Human

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Services and, almost inarguably, the foremost historian on U.S. poverty measurement, describes the process used to develop consensual budget standards as below:

To develop a budget standard for a particular household type (e.g., retired couples or single-parent families), groups of persons from such households are recruited from the general population. Groups are chosen to include persons from differing social backgrounds and economic circumstances; the goal of the research is to achieve a consensus, and this cannot be done if persons of different socioeconomic circumstances are isolated from each other. The groups begin by discussing and agreeing on a definition of essential minimum; such definitions are usually adapted from a United Nations definition of an adequate lifestyle — “things which are necessary for a person’s physical, mental, spiritual, moral and social well-being.” Groups are encouraged to avoid considerations of cost as much as possible, since “as soon as people begin to discuss incomes and costs[,] issues of spending patterns arise. This gives rise to judgments about whether some groups of the population are more ‘deserving’ than others. Since the aim of the research is to produce budget standards which apply to all people in similar household types, such discussions need to be avoided” [emphasis in original]. The groups then discuss, negotiate, and agree upon a list of specific goods and services deemed essential for a minimum living standard for the household type in question. The resulting list is then costed by researchers at stores recommended by the groups, resulting in a draft minimum budget standard. In the final phase, “check-back” groups go over the uncosted list, coming to agreement on any unresolved issues and reaching a final consensus. The strength of the consensus is tested, with researchers giving group members the cost of the final list and its components, and seeing if this information makes group members want to make any changes in the list. The final list of items resulting from this phase is costed, producing a final consensually agreed minimum budget standard.³

Though the consensual standard budget process is quite detailed, standard budget approaches historically have been criticized for being unscientific and arbitrary due to their basis

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in social rather than scientific criteria. More recent work in both the U.K. and Ireland has been carried out in an attempt to address this concern.

Utilizing the Minimum Income Standards and Minimum Essential Budget Standard Approach. The Joseph Rowntree Foundation (U.K.) and Vincentian Partnership (Ireland) have done extensive work to take both public and expert opinion into account when determining what components should make up standard budgets. The Joseph Rowntree Foundation funded recent work to develop Minimum Income Standards in the U.K. by combining the CRSP’s consensual budget standard approach with expert-led methodology used by the Family Budget Unit (FBU) at York University. Through this joint approach, members of the public negotiate budgets, and experts check these decisions and advise where they see a case for amending them. This in-depth consultation process is mapped out in Figure 4.

4. Ibid.
Figure 4. Minimum income standard research stages

The Vincentian Partnership for Social Justice (VPSJ), an NGO in Ireland, took a similar approach in developing a Minimum Essential Budget Standard (MEBS) to determine the cost of a minimum essential standard of living in Ireland. The underlying research used surveys of household consumption, consultation with small groups, and expert committees to develop budgets.\(^5\)

The approaches taken by the Joseph Rowntree Foundation and Vincentian Partnership are both good models; however, because they are not official (or even unofficial) government-produced statistics, both the researchers and the representatives of the general public are freed from having to take into account the political implications of increases or decreases in the poverty rate under their ultimate calculations. While certainly members of the public and expert researchers can have their own, often disparate, views on what is necessary to live out of poverty and what an adequate income threshold may be, political interests are less likely to influence their decisions.

In the U.S., there is much acceptance of and support for the SPM - though by no means universal. Accordingly, in order to ensure that the publication of the measure is continued, there seems to be a concerted effort to create a threshold that closely resembles the existing one. It is this desire to align one measure to another that makes those responsible for creating and implementing a new measure use caution in producing one that does not paint a bleaker picture of the poverty rates. For this reason, researchers and statisticians—and especially researchers and statisticians who want to ensure that the poverty threshold is as accurate as possible—often choose to use a model that is closely aligned with the official government measure.

statisticians that are representative of federal agencies—should not have the deciding voice in
where thresholds fall. As was pointed out in a previous chapter:

For the purposes of researchers, a strong empirical defense of the poverty line is
unnecessary. Any marker of economic status, even one that is arbitrary in the
sense that it has no convincing intrinsic justification, can serve the purposes of
economists well as long as it performs its function of measuring variation
accurately near the bottom of the distribution.6

This becomes particularly problematic when those researchers hold prominent positions within
the departments and agencies responsible for creating and updating measures (as is the case in
the United States) because the natural tendency will be to set thresholds that are politically
acceptable rather than based on actual human needs.

Because of this political tendency to align measures with existing rates, statisticians and
expert researchers (particularly those in prominent governmental positions) must be relied upon
for their technical input but cannot ultimately play a role in setting or updating the thresholds.
The ultimate step in setting the threshold should be directly based on public opinion and free of
political influence. Expert research and opinion is necessary to determine the technical aspects of
the thresholds, such as equivalence scales and adjustments for housing status, and many of the
other components that went into the NAS recommendations and subsequent SPM. However, the
final stage leading to the ultimate threshold must be isolated from both researchers and politics.
This is possible through widespread public surveys.

**Ensuring the Measure is Isolated From Political Considerations Through the Use of Survey
Data.** Adding an additional layer of public participation in the determination of what makes up a
minimal standard budget beyond—and more isolated from-- the public expert consultation
process used in the British CBSA could be achieved through national surveys. This would

address the potential vulnerabilities inherent in the existing consensual budget, plus expert opinion-style approaches. Though presently no survey exists that could comprehensively and accurately carry out the necessary public polling for this type of data, other countries have shown such surveys are possible. For example, in the mid 1980s, Stewart Lansley and Joanna Mack pioneered a new approach to measuring poverty and deprivation in the U.K. by attempting to directly identify a minimum standard of living through representative sampling of what items people consider necessities. Importantly, they coined the term “enforced lack of necessities” to distinguish poverty status between those who go without due to an inability to afford a necessity and those who do so by choice.7

Building upon the foundation of Mack and Lansley, the U.K. now has a Survey on Poverty and Social Exclusion (PSE), which is used to determine which items the public thinks to be necessary and that no person should have to go without.8 The most recent PSE survey, completed in 2000, consisted of a list of 35 items, ranging from beds and bedding to a holiday away from home once a year. If over half of survey participants considered an item to be necessary, it was so deemed. Individuals and families were then considered deprived if they lacked (due to inability to afford and not by choice) three or more of the listed items.9 Though poverty is an abstract concept and a universally agreed upon understanding of its definition remains elusive, England’s experience with the PSE demonstrates that there can be, and in fact is, large scale agreement over what constitutes necessities.10


8. Townsend and Kennedy, Poverty: Measures and Targets, 15.

9. Ibid.

Such a survey could be used to determine which components should make up a standard budget or market basket in the United States, and doing so would address a key criticism of the Canadian MBM: that its review was done behind closed doors and without public participation. But a major problem with the PSE survey and corresponding deprivation index, as pointed out by Townsend and others, is that “the original list of items and activities presented to them still has to be selected by the researcher.”¹¹ This criticism could be remedied by applying a multi-step process utilizing the methods of the Joseph Rowntree Foundation and Vincentian Partnership, which take into account public and expert input to determine basic needs, but without going so far as to determine the actual budget thresholds.

However, a problem with the standard budget approach—even one with robust public influence—is that it creates a threshold based solely on perceived income needs. Adding a measure of deprivation, like those used in Ireland and the U.K., could serve both a political and practical purpose.

**Adding in a Measure of Deprivation.** The existing U.S. poverty measure, as well as the SPM, has been criticized for only looking at income as a means to measure poverty. Adding a separate income poverty plus deprivation measure would help address this concern. In the United States, economist Heather Boushey’s research could be a guide of how a potential income plus deprivation measure might look. Boushey uses existing survey data to put together different deprivation indexes based on respondents’ answers to questions, such as:

- Whether anyone in the family goes without necessary medical care
- Whether anyone in the family did not have enough to eat sometimes or often
- Whether a family worries that food will run out before it can buy more
- Whether any individual in the family used the emergency room as his or her usual place of health care
- Whether a child was involved in any enrichment activities.¹²

While experience in the U.K. demonstrates that a consensual budget standard approach which takes into account public opinion would likely yield higher poverty thresholds and rates, experience in both Ireland and the U.K. has shown that the incorporation of an index that accounts for deprivation plus income poverty (even if the poverty threshold is set higher than the traditional measure), reveals lower rates.13

**Construct of the Final Measure**

The final measure(s) should ensure:

- A direct public role in determining the potential list of necessary items. This could be done through a simplified version of the approach taken in England and Ireland (Minimum Income Standards and a Minimum Essential Budget Standard). Rather than determine the final budgets, expert and research opinion would only factor into the determination of the items and abilities necessary to escape poverty. Importantly, this must ensure that those public participants must have relevant expertise or experience in the type of family for which they are developing a standard budget. For example, only individuals who have raised small children should determine what goods or abilities are necessary for families with small children.

- A direct role of researchers and poverty experts to answer the questions that truly need expert deliberation such as: over what period of time should changes in price be determined and averaged; how to cost out the value of the contents of the market basket; which in-kind and tax benefits should be included in the resources definition and what expenditures should be removed from resources; and how to adjust for the economies of scale of different types of household compositions (such as those with small children or

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elderly members). Most of these questions were thoroughly researched by both the NAS panel and the ITWG with expert judgment.

- A robust national survey, such as the Survey on Poverty and Social Exclusion in the U.K., would be conducted at a set interval (determined by experts and statisticians). The survey would include questions on what goods and abilities are necessary to escape poverty based on the decisions made by the MIS/MEBS-style focus groups. If an item or service is deemed necessary by an overwhelming majority of the public (though the PSE uses 50 percent, to be truly robust and defensible, a higher and undisputable majority threshold, 70 percent, should be used), it goes into either the market basket or deprivation index. Those components with a monetary price tag make up the potential components of the standard budget; those components that are not appropriate for a monetary value (e.g. the ability to take a leave day when your child is sick, or the ability for a child to participate in recreational sport, or the ability to put some money aside for future savings) would make up a list of potential deprivation indicators. Similar to the initial development of the list of potential necessary items (#1), the survey must ensure that respondents have the relevant expertise or experience to validate budgets for different family types. For example, the determination of budgets necessary for seniors should be based on the survey responses of seniors.

- A direct, and not consultative, connection between the input of the informed public opinion groups and that of expert researchers. To do so, the market basket, decided upon by public polling, would then be matched with findings from expert research and equivalized to determined poverty thresholds.

- An additional deprivation index is then created to show the share of the population that is both below the income poverty threshold and is deprived—by force and not by choice—of the items or services deemed to be necessary by 70 percent of the surveyed population.

- A mandatory and automatic process for updating: the expert calculations that answer the technical questions related to the measure(s); the public/expert consultation process that determines which questions will go on the national survey; and a corresponding national survey every certain number of years that ultimately determines the items included in a market basket as well as the questions that determine the deprivation calculations.

One challenge with such an approach in the United States is that no clear disinterested yet authoritative entity, like the Joseph Rowntree Foundation or Vincentian Partnership, exists that could validate budgets and conduct the necessary surveys. There is no obvious way around this obstacle, but a starting point recommendation would be that the government could contract with financiers or foundations to pilot such a measure. Unlike the appropriations language commissioning the NAS report, this measurement would not be left to a scientific panel alone.
The conclusions drawn in this paper share much in common with recommendations made by Shawn Fremstad at the Center for Economic and Policy Research in a 2010 paper entitled “A Modern Framework for Measuring Poverty and Basic Economic Security.” One recommendation put forth by Fremstad addresses his criticism of the mechanisms for updating the SPM (or what he refers to as the “Supplemental Income Poverty Measure or SIPM). His recommendation is that, “The SIPM thresholds should be tied to a percentage of median income or based on expenditures on a modern basket of necessities.” Fremstad recognizes that using a changing market basket to determine this threshold is a viable option, though his own view “is that the SIPM thresholds should be set to a percentage of median income, so that they keep pace with mainstream living standards over time.”

It is evident that the idea of any sort of poverty measure based on relative income will not be widely accepted in the United States. Despite the value of a relative approach, for operational, feasibility, and political purposes, it is best to accept that a measure should be based on public and expert consensus rather than relative income.

Two recommendations put forth by Fremstad relate to the need for a direct public role in developing poverty thresholds. Specifically, he recommends:

The public should be given the opportunity to provide meaningful input into the development of the SIPM and other proposed measures … [and] instead of assuming that only certain traditional goods are necessities of contemporary modern living— e.g., only food, shelter, clothing, utilities—the list of necessities to include in the index should be developed based on both community and expert input on current social necessities, as well as survey research that asks the American public to identify, from a list of goods and services, those items that are necessities and that no one in the United States should be without today.


15. Ibid., 16.

16. Ibid., 2.
Both elements outlined above are necessary and should be mandatorily assessed at predetermined intervals. Moreover, public opinion should be the ultimate deciding factor in what items go into the basket of goods that are priced out to determine the poverty thresholds. The history of the poverty measure in the U.S. illustrates that the process of developing and updating the measure must go a step further by establishing the general public as the ultimate authority on what items are necessary to escape poverty. While critics can say that a public consultation process is unscientific, they can hardly argue that national polling on what is considered to be necessary by, say, 70 percent of the population, is faulty. For this reason, it is essential that the survey be robust, well-structured, and scientifically defensible. Without a regular and mandatory updating of the poverty measure that directly takes into account public opinion to account for changes in what is necessary to get by, the measure will remain stagnant.

Though his recommendations fall in line with this general approach, Fremstad does not go so far as to say that the poverty threshold should be directly determined, and updated, based on a standard budget that is developed and validated by the general public. However, this is an important direct connection to make and would be feasible through a large scale public survey (such as the PSE) to determine the goods that the public considers necessary. Those items could then be costed out to determine a minimum income threshold. Though such an approach may not be a popular change in countries like Ireland, the U.K., and Canada where existing socially accepted measures are more generous, in the U.S. this change would be welcomed as a step forward by many in both the policy and advocacy worlds.
CONCLUSION

The official U.S. poverty measure, created in the 1960s and based on 1950s spending habits, has not stood the test of time. With each passing year, the measure paints an increasingly inaccurate picture of who is poor in America. To a large extent, this is due to little consideration being given to how it would be updated over time when the measure was created and adopted. The original U.S. poverty measure set the poverty thresholds at a level that was, for the most part, widely accepted at the time. However, because its annual changes are solely based on inflation, the thresholds have become increasingly disconnected over time from both public opinion and average income. This is partly due to the fact that unlike every other federal statistical measure, the responsibility for updating the poverty measure is housed within the Office of Management and Budget rather than being left to statistical agencies such as the Bureau of Labor Statistics or Census. Accordingly, only a Presidential Directive or Act of Congress can change the poverty calculation. Such a placement leaves the poverty measure vulnerable to political calculations and considerations.

Indeed, the history of the poverty measure has shown that multiple Administrations and Members of Congress have sought to change the measure, but none has been successful in doing so. This is for two related reasons: first, any measure that would show more Americans officially counted as poor would likely cast a dim view on the Administration overseeing that change. Similarly, any measure that would show fewer Americans officially counted as poor would cause critics to say that the Administration or Congressional leaders responsible for the change were trying to downplay the problem of poverty in America. Second, because the United States is one of few countries that ties federal spending poverty rates of individual states and determines eligibility for a number of anti-poverty programs directly by the poverty status of individuals, any change in the official poverty measure would have implications on federal spending.
In 1995, due to a congressional request, the National Academy of Sciences (NAS) conducted a study, the results of which were published in a book entitled *Measuring Poverty: A New Approach*. The suggested changes laid out by an expert NAS panel have shaped much of the poverty measure debate in the U.S. since the book’s publication. In fact, in 2010, the Obama Administration announced a new “Supplemental Poverty Measure” largely guided by the recommendations of the NAS panel. Though this measure, which was first produced in 2011, has not replaced the official U.S. measure, the Administration and outside groups have frequently pointed to it when referencing poverty in America and the positive effects of anti-poverty programs.

The NAS-based approach, while a large improvement over the official U.S. measure, is still deeply flawed. The calculation is left to expert researchers and statisticians within the Bureau of Labor Statistics and Census Bureau with no direct involvement of public opinion. Accordingly, those experts charged with setting the ultimate thresholds and reviewing the measure care more about creating a measure that is statistically defensible and politically acceptable rather than one that accurately reflects human needs.

Other western countries have successfully implemented alternative or updated poverty measures that are both more sustainable over time as well as more in line with the public’s judgment of where poverty thresholds should rest. The most successful and sustainable of these measures include some means of ensuring poverty thresholds are socially legitimized either through nationally representative surveys or by focus groups representative of the general public. Though such methods of establishing poverty thresholds have been characterized as unscientific, a uniquely American poverty measure could be established by combining both public and expert opinion and ensuring researchers and statisticians do not have the ultimate say in where a threshold is set. Such a measure would ensure the expert research that went into both the NAS panel’s recommendations as well as the Obama Administration’s Supplemental Poverty Measure
would still be utilized. However it would also ensure that the measure is not as vulnerable to political considerations or as detached from true human needs.
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87


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