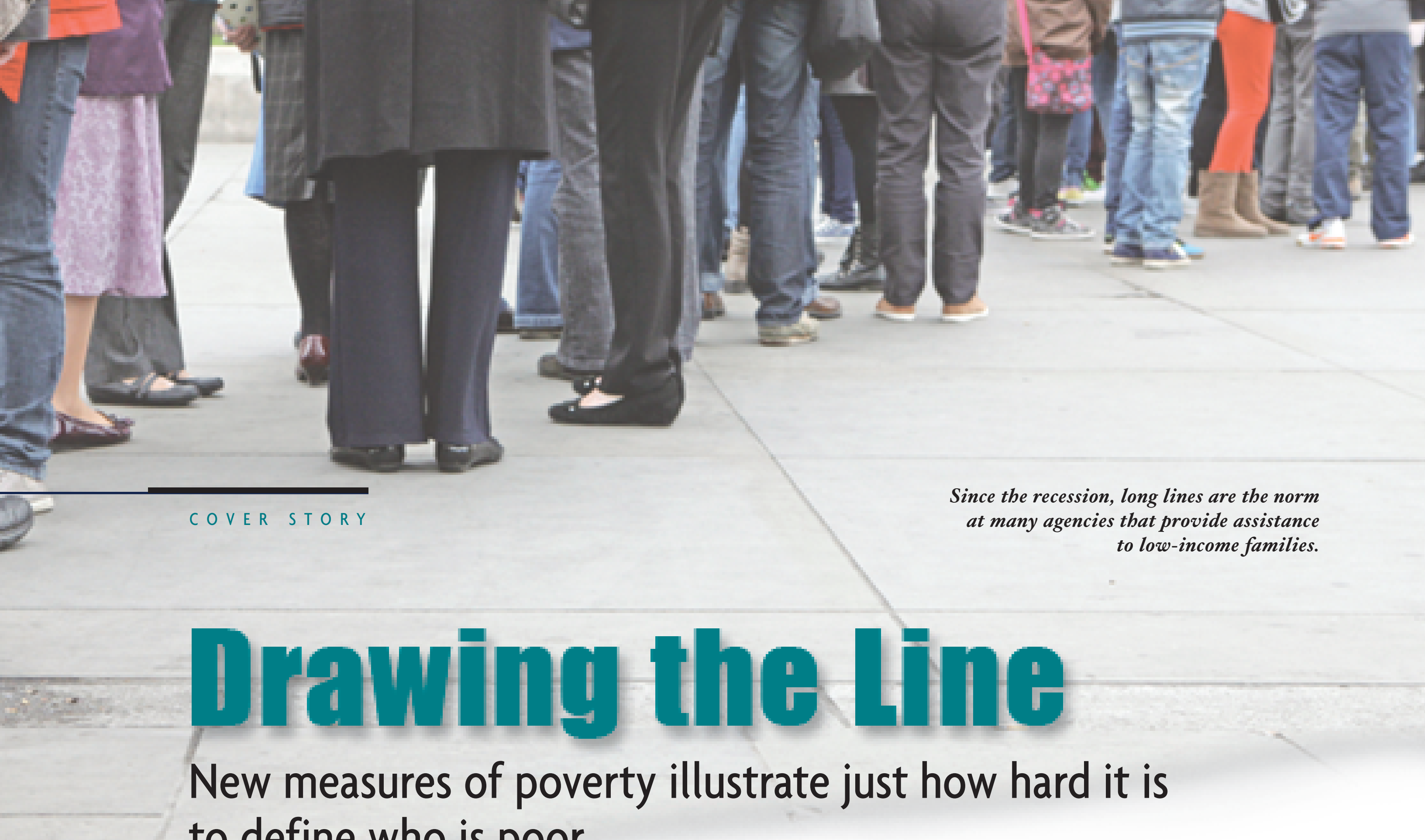


COVER STORY

Since the recession, long lines are the norm at many agencies that provide assistance to low-income families.

Drawing the Line

New measures of poverty illustrate just how hard it is to define who is poor

BY JESSIE ROMERO

In 1964, President Lyndon Johnson launched a "War on Poverty" — an ambitious legislative agenda that created programs such as food stamps, Medicare, Medicaid, and Head Start, to name just a few. At the time, no official measure of poverty existed. But just one year earlier, a Social Security Administration economist named Mollie Orshansky had published an article titled "Children of the Poor," in which she presented an income threshold based on a subsistence level of food spending. President Johnson's new Office of Economic Opportunity adopted Orshansky's threshold for statistical and planning purposes, and by 1969, the measure with some slight revisions had become the government's official statistical definition of poverty.

Orshansky derived the threshold from the Department of Agriculture's "economy" food plan, which detailed the bare minimum a family could spend on a nutritionally adequate diet. The average family in the 1960s spent about one-third of its income on food, so she multiplied the economy-plan level of spending by three to determine the poverty threshold — $3,165 for a family with two parents and two children in 1963. (Orshansky also calculated equivalent thresholds for dozens of subcategories of family types.)

But the progenitor of the official poverty measure never intended for what she called her "crude indexes" to become a general definition of poverty. Instead, Orshansky's goal was to assess the ability of various demographic groups to provide for their children by linking family income to food costs. As she wrote in a 1988 retrospective, "The utility of the SSA poverty index owes much to an accident of timing: It appeared when needed. The link to nutritional economy and food-income consumption patterns endowed an arbitrary judgment with a quasi-scientific rationale it otherwise did not have."

Yet Orshansky's measure remains the official definition today, largely unchanged except for adjustments for inflation and family size. The current threshold for a two-parent, two-child household is $23,283.

For decades, the official poverty rate has been criticized by economists, policymakers, and activists from both the left and the right. A variety of incremental improvements and wholesale changes have been proposed by both federal and private sector researchers. What these research efforts show, however, is not that one definition of poverty is unequivocally correct, but rather how challenging poverty is to define.

The Official Poverty Threshold

The poverty rate is a widely cited gauge of the health of the economy, and trends in the rate are used to justify new policies and evaluate the effectiveness of existing policies. For example, in 1993 President Clinton used the rate as a marker for his proposed expansion of the Earned Income Tax Credit (EITC); he pledged that full-time work at

PHOTOGRAPHY: RICHARD NEWSTEAD/FLICKR/GETTY IMAGES minimum wage plus the EITC should be enough to lift a family above the poverty line. More recently, the poverty rate has been viewed as an alarming signal of the effects of the 2007-09 recession. In 2010, the rate reached 15.1 percent — comprising 46.2 million people — the highest rate in nearly two decades. In 2011, the most recent year for which there are data, the rate remained elevated at 15 percent.

States in the Fifth District are faring both better and worse than the nation as a whole. Poverty rates in 2011 in Maryland and Virginia were 9.3 percent and 11.4 percent, respectively, and North Carolina was near the national average, at 15.4 percent. But West Virginia, South Carolina, and Washington, D.C., had some of the highest poverty rates in the nation: 17.5 percent, 19.0 percent, and 19.9 percent, respectively. (See chart.)

The official poverty thresholds also determine the eligibility for and allocation of funding across more than 80 federal programs, ranging from helping rural areas improve their water and waste disposal systems to providing free breakfast and lunch to low-income school children. (This number includes many federal programs that determine individual eligibility according to the poverty guidelines developed by the Department of Health and Human Services, simplified versions of the Census Bureau's official thresholds.) The largest program that uses the official poverty threshold to determine individual eligibility is food stamps, formally known as the Supplemental Nutrition Assistance Program (SNAP), which paid out $74 billion in benefits in 2012.

Picking the Target

In theory, measuring poverty is a simple task. "If your needs exceed your resources, you're poor. If your resources exceed your needs, you're not poor," says Timothy Smeeding, an economist at the University of Wisconsin-Madison and director of the Institute for Research on Poverty. But in practice, "all those measures are subjective" — making the task far more complicated.

Researchers must make a number of decisions about how to measure resources: Should they count pre- or post-tax income? Should they include in-kind transfer benefits? What about assets? And how should they account for differences in family size or regional variations in the cost of living? Then they must decide where to set the threshold for need, a decision that is inherently arbitrary. "There's nothing magic about [setting the threshold]," says Bruce Meyer, an economist at the University of Chicago. "It isn't something that comes down on a tablet from Mt. Sinai."

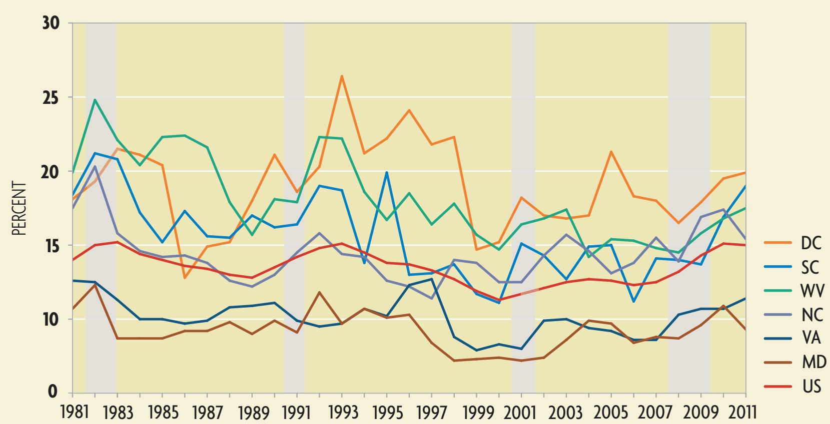
A fundamental question is whether the threshold should be absolute or relative. An absolute threshold is adjusted only for inflation; the real value of the threshold remains constant from year to year, making it useful for tracking the level of poverty over time. But an absolute measure will not reflect changes in the standard of living, or shifting attitudes about what it means to be poor. Televisions and cars were luxuries in 1963 — when the U.S. thresholds were established — but today are viewed by many as necessities, as Meyer and James Sullivan of the University of Notre Dame noted in a 2012 *Journal of Economic Perspectives* article.

A relative poverty measure addresses this concern by setting the threshold relative to a metric that changes with society's standard of living. The United Kingdom, for example, sets the poverty threshold at 60 percent of the country's median income. Such a measure better captures how the poor are faring compared to the rest of society.

While absolute measures are criticized for holding the level of need constant, relative measures are criticized for not really measuring need at all. Instead, some researchers contend, relative poverty measures actually are a measure of inequality. For example, a relative poverty measure could change dramatically with swings of the business cycle. During the 1990s and early 2000s, incomes were rising very rapidly in Ireland, but they rose more quickly in the middle of the distribution than at the bottom. As a result, the relative poverty rate increased even though people at the bottom actually were earning much more than they had just a few years earlier. In addition, a constantly moving target makes it difficult to assess the effects of anti-poverty policies over time. "If you're continually changing the goal posts, it's hard to know where you are relative to the goal line," Meyer says.

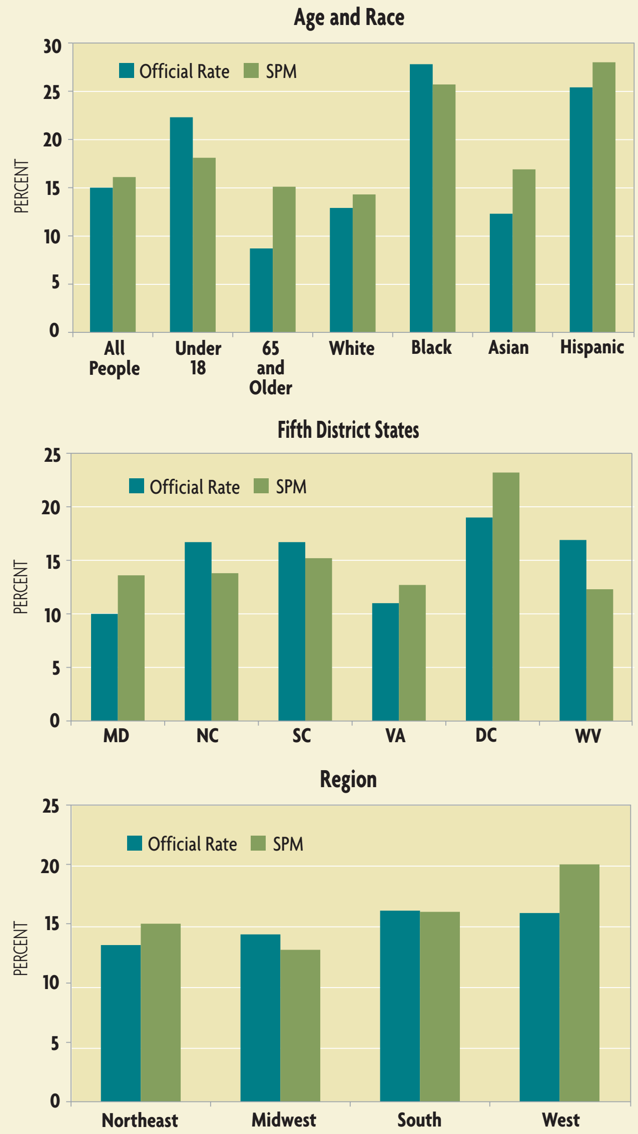
The official U.S. poverty rate uses pre-tax money income as its resource measure, and the threshold is absolute, adjusted only for inflation since 1963. (Some economists believe that the threshold is effectively relative because it is tied to the Consumer Price Index, which might overstate inflation; the thresholds thus could be rising faster than actual inflation.) Both of these characteristics have been widely faulted for painting an inaccurate picture of poverty in the United

Official Poverty Rates, U.S. and Fifth District



NOTE: Shaded areas denote recessions.
SOURCE: U.S. Census Bureau

Official Poverty Rate Versus Supplemental Poverty Measure (SPM)



NOTE: State poverty rates are a three-year average (2009-2011).
SOURCE: U.S. Census Bureau

States. Pre-tax money income, for example, doesn't include expenses or in-kind benefits, and thus doesn't reflect the actual disposable income available to a family. In addition, critics say that the official thresholds have "defined deprivation down." The poor today are poorer relative to the rest of society than they were a half century ago: In 1963, the poverty threshold for a family of four was about 50 percent of U.S. family median income. Today, it's closer to 30 percent.

At the same time, however, the official poverty rate doesn't reflect that the poor appear to be better off in absolute terms than they were in 1963, according to Nicholas Eberstadt, an economist and political scientist at the conservative American Enterprise Institute. In his 2008 book *The Poverty of "The Poverty Rate,"* Eberstadt found that the trend in the poverty rate contradicted trends in other indicators of well-being. Since the early 1970s, for example, the poverty rate has increased while the infant mortality rate and the number of people who are nutritionally deprived have decreased. In addition, according the Eberstadt, a poverty-level household in 2001 was more likely to have central air conditioning or a television than a median-income family was in 1980.

The Supplemental Poverty Measure

The limitations of the official poverty rate have been recognized from the beginning. As Orshansky herself wrote in her pioneering 1963 article, "There is need for considerable refinement of the definition or standards by which poverty is to be measured, if we are to trace its course with assurance." Numerous economists, statisticians, and other researchers have thus spent decades grappling with questions ranging from data collection to philosophy.

In 2011, the Census Bureau unveiled the Supplemental Poverty Measure (SPM), which attempts to address many critiques of the official poverty rate. The SPM will not replace the official rate, but will be released alongside it each fall. The first major difference is that instead of pre-tax money income, the SPM counts cash income plus tax credits and in-kind benefits such as food stamps, school lunches, heating and housing assistance, and WIC, a nutrition program for women and children. It then subtracts work expenses such as transportation or child care, out-of-pocket medical expenses including insurance premiums, and child support paid to another household.

Another major change is to the threshold for need. The new threshold is based on expenditures on food, clothing, shelter, and utilities, or FCSU, by different types of family groups. The line is drawn at the 33rd percentile of FCSU spending, multiplied by 1.2 to account for additional basic needs and adjusted for various family sizes. The thresholds will be revised each year according to the five-year moving average of FCSU expenditures; this method is designed to ensure that the thresholds change with time, but more gradually than if they were pegged to annual data. The SPM also includes regional adjustments for housing costs, so a family living in New York City has a higher threshold than a family in Oklahoma.

The SPM poverty rate is 16.1 percent; about 3.1 million more people are counted as poor than under the official threshold. Underlying this increase are dramatic changes in demographic groups. The poverty rate for children under 18 decreases from 22.3 percent to 18.1 percent, since many in-kind benefits are targeted toward children. But including medical costs causes the poverty rate for the elderly to nearly double, from 8.7 percent to 15.1 percent. The poverty rates for white, Hispanic, and Asian people increase, while the poverty rate for black people decreases. A number of factors could contribute to these differences, including different participation rates in benefit programs or the likelihood of having health insurance. Hispanics, for example, have low rates of health insurance coverage, which could increase their out-of-pocket medical spending.

There also are significant regional changes. Poverty increases in the Northeast and West, reflecting the higher cost of living in these regions, but decreases slightly in the Midwest and South. In the Fifth District, SPM poverty is higher than official poverty in Washington, D.C., Maryland, and Virginia, and lower in North and South Carolina and West Virginia. (See chart.)

Because the SPM includes in-kind benefits, it better illustrates the effects of government anti-poverty programs. The poverty rate without the EITC would rise to 18.9 percent; without food stamps it would be 17.6 percent. The effects are especially noticeable for children. Child poverty would be 24.4 percent without the EITC, 21 percent without food stamps, and 19 percent without the school lunch program.

The SPM also underscores how many people have difficulty making ends meet, even if they aren't officially poor. The share of people with incomes between 100 and 150 percent of the poverty line increases from 10 percent to 17 percent under the SPM — to a total of 57 million people. More than 10 million people were lifted out of poverty into near-poor status, but more than 26 million people were brought down by the inclusion of taxes and expenses. "The programs that reduce poverty at the bottom are very well targeted at the poor. They really help people at the bottom. But if you move above the poverty line the benefits phase out. And the higher up you go, the more of your income is earnings, so you have more work and child care expenses," says Smeeding.

Challenges to the SPM

The SPM is not intended to replace the official poverty rate; instead, it was designed as "an additional macroeconomic statistic providing further understanding of economic conditions and trends," according to the Census Bureau. Given the many programs that make use of the official poverty rate, replacing it with the SPM would be both administratively and technically challenging. Because the official rate and the SPM have different standards of need and measures of resources, a program that sets eligibility at, say, 130 percent of the official poverty line might have to determine a new standard using the SPM. The SPM also could complicate funding allocation to states, for example by penalizing states with low costs of living or generous benefits programs and that thus have lower poverty rates than under the official measure. "Are we going to penalize the states that do a great job for the poor, and give them less money? Or should we look at poverty before taxes and benefits, and see where the need is?" asks Smeeding.

In addition, some critics of the SPM believe that the measure both adds and subtracts the wrong people. For example, child and elder poverty rates are about the same under the SPM, but the Department of Agriculture's food-insecurity index shows more than twice as many children as elderly people at risk, notes Shawn Fremstad, a senior research associate at the liberal Center for Economic and Policy Research. "Adding a child to your household costs a lot more than adding another adult," Fremstad says, a fact that might not be picked up by the SPM's family-size conversions. Moreover, Fremstad asks, "Are we really capturing the need kids have for care, for development beyond subsistence needs?"

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Conversely, the increase in elder poverty relative to the official poverty rate might not be all that it appears. Much of the increase is driven by large out-of-pocket medical expenses, which lower disposable income. But it's possible that the elderly have high medical expenses in part because they choose to allocate their resources toward health, by purchasing expensive insurance plans or having procedures that aren't covered by insurance. "It is difficult a priori to determine whether most out-of-pocket medical spending reflects those with lower health status or those who have greater resources and makes choices to spend more on out-of-pocket health costs," Meyer and Sullivan wrote in their 2012 article. In fact, neither the official poverty rate nor the SPM might be suitable for measuring elder poverty. "An income measure is particularly poor at capturing the well-being of the elderly because many older households are living off their savings, which don't count as income," Meyer says. "And the vast majority own their own home and have a car. They get a flow of services from these resources that don't require income or current spending."

Overall, Meyer and Sullivan's analysis suggests that the people newly counted as poor by the SPM are likely to have a higher standard of living than those who are no longer counted as poor. (A person could be officially poor but not SPM poor if he has very low income, but receives many in-kind benefits. A person could be SPM poor but not officially poor if she has income above the official poverty threshold, but also has high medical or child-care expenses.) For example, those newly counted by the SPM are more likely than those no longer counted as poor to be a homeowner, to own a car, and to live in a household headed by a college graduate; they also tend to live in larger homes and have more amenities such as air conditioning, dishwashers, and computers. This suggests that the SPM is not accurately capturing those who are truly the worst off.

Alternative Poverty Measures

Both the official poverty rate and the SPM are income-based measures. But income is not the only way to measure a person's well-being. One option might be to use consumption, which takes account of the fact that some people have savings or own durable goods such as houses or cars. Consumption is thus a better reflection of lifetime resources than income at a point in time. Or, as Meyer says, "The reason you care about income is because it allows you to consume, so you might as well look at consumption," Meyer says.

Meyer and Sullivan constructed a measure based on consumer expenditures, including an annual value of home and car ownership for households with these items. They found that people who are consumption poor under their measure but not officially poor (that is, people who have incomes above the official poverty line but low consumption, perhaps because of high expenses) tend to score lower on many measures of well-being than those in the opposite situation — those who are officially poor but not consumption poor (they have low incomes but high consumption). On average, the consumption-poor live in smaller homes with fewer amenities and are less likely to own their own homes, and the head of the household is less likely to be a college graduate. The consumption measure thus does a better job of identifying people who are truly disadvantaged, according to Meyer and Sullivan. They also found that consumption poverty fell 8 percentage points between 1980 and 2010, while the official poverty rate rose 2 percentage points; the poor today tend to have a higher standard of living than the poor of the past.

Just as an income-based measure might include families who have low incomes but are able to smooth consumption via savings, a consumption measure could exclude people who have low incomes but are consuming via credit. It's likely that the measure would balance over time, however, since people who are borrowing today will have to pay it back tomorrow, leading to lower future consumption. Moreover, people close to the poverty line tend to have very little credit and debt.

Because savings allow a person to consume even with low income, another gauge of poverty is assets. An asset-based measure reveals a family or individual's vulnerability to a sudden loss of income. About half of U.S. households do not have enough financial assets to maintain them above the official poverty line for at least three months, according to research by Smeeding and Andrea Brandolini and Silvia Magri of the Bank of Italy.

Another way to measure poverty is not in terms of a single number, but rather as the ability to maintain "a minimum decent standard of living. It's a quality of life concept," says Fremstad. The European Union, for example, not only counts the number of people below 60 percent of median income, but also tracks measures of "material deprivation" and "inclusion." Material deprivation is the inability of individuals or households to afford the goods and activities that are typical in a society at a given point in time; the purpose of the measure is to reflect a consensus about what items constitute necessities. According to the United Kingdom's Family Resources Survey, for example, necessities include a warm winter coat, keeping the home in a "decent state of decoration," and having enough toys and games for a child's development. The concept of inclusion is even broader, and refers to a person's ability to participate in economic, social, and cultural activities. Social inclusion is difficult to measure — "I think it's hard to get a handle on what it means in a practical sense," says Fremstad — but many researchers believe that the United States would benefit from a more holistic approach to poverty measurement.

The debate over poverty measurement highlights that no single measure can be sufficient for all purposes. For example, both relative and absolute poverty are valuable. "It's important to know how the poor are doing relative to everyone else, but it's also important to know if people are doing better than they were," Smeeding says. Similarly, income, consumption, and assets all shed light on the multiple types of hardship faced by different groups of people. In the end, of course, changing the words doesn't change the reality; a new definition of poverty doesn't alter the material circumstances of those who find themselves in a new category. But the continuous effort to refine the measures is an important step toward understanding who is poor and how they can best be helped. **EF**

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