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ESTABLISHING A MODERN POVERTY MEASURE

HEARING

BEFORE THE

SUBCOMMITTEE ON
INCOME SECURITY AND FAMILY SUPPORT

OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

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ESTABLISHING A MODERN POVERTY MEASURE

THURSDAY, JULY 17, 2008

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

The Subcommittee met, pursuant to notice, at 10:02 a.m., in room B–318, Rayburn House Office Building, Hon. Jim McDermott (Chairman of the Subcommittee), presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON INCOME SECURITY AND FAMILY SUPPORT

FOR IMMEDIATE RELEASE
July 10, 2008
ISFS–17

CONTACT: (202) 225–1025

McDermott Announces Hearing on Establishing a Modern Poverty Measure

Congressman Jim McDermott (D–WA), Chairman of the Subcommittee on Income Security and Family Support of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on a draft proposal to establish a modern measure of poverty in the United States. **The hearing will take place on Thursday, July 17, 2008, at 10:00 a.m. in B–318, Rayburn House Office Building.**

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

BACKGROUND:

On August 1st, 2007, the Subcommittee on Income Security and Family Support of the Committee on Ways and Means held a hearing on the current official poverty measure, which was devised in the mid 1960s and based on consumption patterns from the mid 1950s. Testimony from that hearing and other statements on the topic highlight a broad consensus that the current poverty measure is critically important, but it needs to be significantly updated. Modernizing the nation's measurement of poverty is necessary to accurately depict how widely shared economic prosperity is in America, to appropriately target resources to the most disadvantaged, and to fully assess the impact of programs and policies designed to reduce poverty.

In 1995, the National Academy of Sciences (NAS) issued recommendations for an improved measure of poverty. Many experts continue to believe these proposed revisions represent the best opportunity for a comprehensive update of the current poverty measure.

Chairman McDermott has prepared and circulated draft legislation, the Measuring American Poverty Act, reflecting the NAS recommendations. This newly proposed measure of poverty would continue to track significant deprivation, but it would be based on current consumption patterns for the most basic necessities. Additionally, it would more fully account for income assistance from public programs and for necessary living expenses. This new measure would augment, not replace, the current official poverty measurement. It would therefore not have any direct impact on public program eligibility or on the distribution of Federal funds (any decision to base program eligibility or the distribution of funds on the new modern poverty measure would have to occur on a program-by-program basis). *Click here for the draft bill.*

In announcing the hearing, Chairman McDermott stated: **"If we want to make a measurable dent in poverty, we had better learn to measure it accurately. My draft bill and this hearing are designed to push us in that direction. No other critical statistic has fallen so far behind the times as the poverty measure. It's time to move forward with a measure that is realistic, non-ideological, and accurate."**

FOCUS OF THE HEARING:

The hearing will consider proposals to improve and update the current poverty measure.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, *http://waysandmeans.house.gov*, select "*110th Congress*" from the menu entitled, "*Hearing Archives*" (*http://waysandmeans.house.gov/Hearings.asp?congress=18*). Select the hearing for which you would like to submit, and click on the link entitled, "*Click here to provide a submission for the record*." Once you have followed the online instructions, completing all informational forms and clicking "submit" on the final page, an email will be sent to the address which you supply confirming your interest in providing a submission for the record. You ***MUST REPLY*** to the email and ***ATTACH*** your submission as a Word or WordPerfect document, in compliance with the formatting requirements listed below, by close of business **July 31, 2008**. **Finally**, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225–1721.

FORMATTING REQUIREMENTS:

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

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

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

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

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

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

Chairman MCDERMOTT. Good morning. The meeting will come to order.

I picked up this morning's Seattle Post-Intelligencer, and the article is entitled "Everything Goes Up Except Wages" so it seemed like they sort of anticipated what we were going to do here today.

The Subcommittee has convened several hearings over the last 2 years to explore the policies and programs designed to reduce

poverty in America. However, this ongoing discussion keeps highlighting the inadequacy of our current method for measuring poverty.

In short, we are still using a poverty standard that was developed in the 1960s and is based on consumption data from the '50s. That means our poverty measure is based on multiplying a minimally adequate food plan by three, because in the mid-'50s families spent about one-third of their after-tax income on food.

Today, however, we know there are other needs: housing, transportation, gasoline at $4.50 a gallon has to be somehow factored into what is going on. Medical care requires a much bigger share of the family budget than 50 years ago. It means that our poverty measure doesn't count work expenses like childcare because it assumes that most mothers stay at home as was the case in the middle of the last century. It means our poverty measure doesn't even count the earned income tax credit or food stamps toward disposable income because those programs didn't exist when the measurement was created.

In 1995, a non-partisan panel of experts at the National Academy of Sciences, I think we have a couple of Members here today, recommended a better measure. We are late in responding, even by government standards.

This hearing and the draft bill I have proposed marks a new effort to put those recommendations into place. The thrust of this approach requires measuring current expenditures needed for basic necessities like food, clothing, housing, utilities, and then determining income available to meet these needs, including near-cash benefits. The measure would also account for the geographical differences in the cost of living.

Certain components in the proposed revision like updating the poverty thresholds will increase poverty rates, undoubtedly, compared to the current measure, while other aspects such as expanding the definition of income will reduce the rates. In the aggregate, a new poverty measure based on the National Academy of Sciences' suggestions will likely show a higher number of poor Americans compared to the current definition. However, it is important to remember this measure is still designed to assess significant deprivation, not a reasonable standard of living.

My draft legislation calls for a second assessment on how to arrive at what I call a decent living standard. The draft bill also makes it clear that this modern definition of poverty would have no direct impact on program eligibility levels or on the distribution of Federal funding. Only future case by case decisions on individual programs could change these determinations, but at least we would be trying to do something on better data than we have done before.

Our current poverty definition was first developed in 1963, before the Beatles trip to the United States, before the establishment of Medicare, and before the assassinations of Kennedy and Martin Luther King. It is clearly time, far past time for a major update.

If we want to make measureable progress in reducing poverty we first need to measure poverty properly. I have put forward this proposal reflecting a consensus on expert opinion on how to dramatically improve the current measure.

Mayor Bloomberg recently announced that New York City is implementing a very similar concept, so we know it can be done.

Next month, new poverty figures will be announced that we all know fail to truly capture hardship in America. I therefore hope my friends on both sides of the aisle will join me in pushing for a comprehensive update in the way that we measure poverty. We have waited for nearly half a century for a new poverty measure. We shouldn't have to wait much longer.

I want to yield to my Ranking Member, Mr. Weller.

Mr. WELLER. Thank you Mr. Chairman, and good morning, and good morning to our panelists, and thank you for participating in today's hearing.

Mr. Chairman, I want you to know I appreciate your calling this hearing and offering concrete ideas for changing how the U.S. measures poverty. These definitional questions are certainly important. I have offered my own legislation to improve how poverty is calculated, so I believe it is an area where we can work together.

I want to start off by saying that we have an even more pressing need when it comes to poverty, and that is providing relief to the households effectively being forced into lower incomes and poverty due to rising energy prices. According to non-partisan Congressional Research Service, between 1 and 1.3 million households have already seen their living standards fall below the poverty level due to recent spikes in home energy and gasoline prices.

Mr. Chairman, I have a copy of this study by the non-partisan Congressional Research Service. I ask unanimous consent to insert it into the record at this point.

Chairman MCDERMOTT. So, ordered.

[The Committee Insert follows:]

Memorandum May 14, 2008

TO: House Ways and Means Committee
Attention: Matt Weidinger

FROM: Thomas Gabe
Specialist in Social Policy
Domestic Social Policy Division

SUBJECT: Effects of Increasing Energy and Food Costs on Poor and Low-Income Households' Living Standards

This memorandum is in response to your request concerning the effects of rising energy and food costs on poor and low-income households. The estimates presented in this memorandum are based on a Congressional Research Service (CRS) analysis of Bureau of Labor Statistics (BLS) Consumer Expenditure Survey (CEX) data for 2005, and energy, food, and overall consumer price inflation from 2005 to 2007, and forecasted inflation for 2008. You should be aware that portions of the analysis and results presented in this memorandum may be used in other CRS products, or tailored responses to Members of Congress, as there is considerable Congressional interest in the effects of food and energy price inflation on American families. Please don't hesitate to call me at 7-7357 if you have questions concerning this analysis.

Cautionary Note

As a cautionary note, it should be recognized that as poverty is currently measured in the U.S. based on income, rather than consumption, estimates of changes in food and energy prices on households' standards of living are not directly accounted for in official U.S. poverty statistics. *The estimates presented in this memorandum illustrate estimated changes in spending due to energy and price inflation in excess of core inflation (i.e., price inflation for all items excluding food and energy) for low-income households near the poverty line, and should not be construed as the effect of food and price inflation on official poverty.* The effect of price changes will only be captured by official U.S. poverty statistics to the extent to which family incomes ultimately fail to keep pace with overall inflation (holding all things constant), as poverty thresholds are indexed for inflation.

Introduction

The basic methodological approach taken in the analysis is to determine the additional spending burden to consumers that can be attributed to energy and food price inflation in

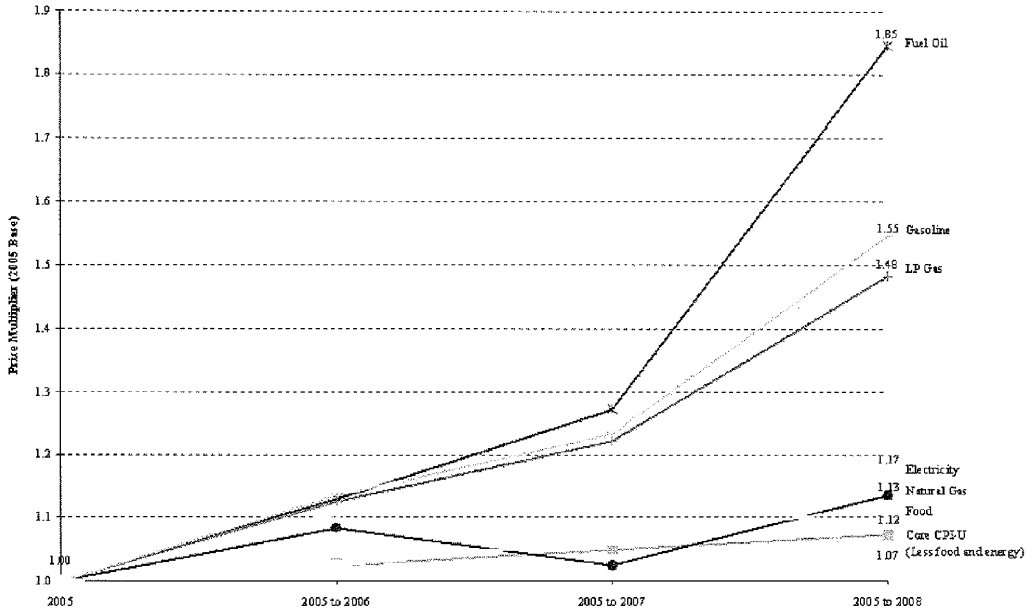
excess of core inflation (i.e, price inflation for all items excluding food and energy) in recent years (2005 to 2008). The analysis holds everything else constant by assuming that incomes rise with core inflation, and that there is no change in household consumer behavior in response to changing prices over the period. In reality, one would expect consumers to alter their behavior in response to rising prices. For example, with rising food prices, consumers might be expected to eat out less, and to shift their diets from more to less expensive items. With rising energy prices, consumers might be expected to drive less, turn down their thermostats in the winter, and turn them up in the summer. However, poor and low-income families might have less latitude to change their behavior in response to high prices than higher income families, as a greater share of their income and spending goes to necessities such as food and fuel, than that of higher income families, for whom discretionary items make up a greater share of their total spending. Actual effects of increased food and energy prices on U.S. households through 2008 won't be directly measurable until the spring of 2010, when CEX data for 2008 are first expected to become available. Absent those data, the approach taken here is to estimate relative impacts of increased food and energy prices on households whose income or spending places them near the poverty line.

Food and Energy Prices

Figure 1 depicts the change in prices for energy, food, and all other goods and services from 2005 through 2007 and 2008 (projected). Cumulative price changes over the period are normalized to 2005, which has a base value of 1.0. In addition to changes in energy (residential electricity, fuel oil, residential natural gas, propane (liquid petroleum, or LP gas), gasoline (retail, all grades including taxes)), and food prices, changes in core price inflation for all goods and services other than food and energy (CPI-U-Core) is shown. Core inflation is arrived at by factoring out direct food and energy components, which tend to be subject to volatile price shocks; core inflation is often used to measure underlying long-term inflation trends in the economy. Ultimately, long-term changes in energy prices may feed back to affect the prices of other goods and services, which will be captured in the core CPI.

Figure 1 shows, for example, that fuel oil prices are forecasted to be 85% higher in 2008 than in 2005 – nearly twelve times that of core inflation (7.2%). Gasoline prices are forecasted to increase by 55% in 2008 over their 2005 base. Residential electricity prices are forecasted to be 17% higher in 2008 than in 2005, and natural gas, 13% higher. Food prices are forecasted to be nearly 12% higher in 2008, than in 2005. Detailed price information is shown in **Table 1**.

Figure 1. Change in Prices for Food, Energy, and All Other Goods and Services 2005 to 2008



Source: Figure prepared by the Congressional Research Service. Energy price data from the U.S. Department of Energy, U.S. Energy Information Administration, issued May 6, 2008. Food price and Core CPI-U data from the U.S. Bureau of Labor Statistics and U.S. Department of Agriculture, Economic Research Service (food price forecast for 2008, issued April 25, 2008). Core CPI-U forecast based on Congressional Budget Office Economic Projections, released February 15, 2008.

Table 1. Food and Energy Prices for 2005 through 2007 and Forecasted Prices for 2008

	Price Indices			
	2005	2006	2007	2008
CPI - U	195.29	201.59	207.34	213.15
CPI-U-Core (Less Food and Energy)	200.89	205.92	210.73	215.37
Electricity (Residential) (cents per kilowatt hour)	9.40	10.40	10.60	11.00
Fuel Oil (cents per gallon)	162	183	206	299
Natural Gas (dollars per 1,000 cubic feet)	12.70	13.75	13.00	14.40
LP Gas (cents per gallon)	176	198	215	261
Gasoline (All Grades, After Taxes) (cents per gallon)	231	262	285	357
Food CPI-U	190.7	195.2	202.92	213.06
Food at home (CPI-U)	189.8	193.1	201.25	211.31
Food away from home (CPI-U)	193.4	199.4	206.66	215.96

	Annual Inflation Rate		
	2005 to 2006	2006 to 2007	2007 to 2008
CPI - U	3.2%	2.9%	2.8%
CPI-U-Core (Less Food and Energy)	2.5%	2.3%	2.2%
Electricity (Residential) (cents per kilowatt hour)	10.6%	1.9%	3.8%
Fuel Oil (cents per gallon)	13.0%	12.6%	45.1%
Natural Gas (dollars per 1,000 cubic feet)	8.3%	-5.5%	10.8%
LP Gas (cents per gallon)	12.5%	8.6%	21.4%
Gasoline (All Grades, After Taxes) (cents per gallon)	13.4%	8.8%	25.3%
Food CPI-U	2.4%	4.0%	5.0%
Food at home (CPI-U)	1.7%	4.2%	5.0%
Food away from home (CPI-U)	3.1%	3.6%	4.5%

	Cumulative Price Changes -- Base Year 2005			
	2005	2005 to 2006	2005 to 2007	2005 to 2008
CPI - U	1.0000	1.0323	1.0617	1.0914
CPI-U-Core (Less Food and Energy)	1.0000	1.0250	1.0490	1.0720
Electricity (Residential) (cents per kilowatt hour)	1.0000	1.1064	1.1277	1.1702
Fuel Oil (cents per gallon)	1.0000	1.1296	1.2716	1.8457
Natural Gas (dollars per 1,000 cubic feet)	1.0000	1.0827	1.0236	1.1339
LP Gas (cents per gallon)	1.0000	1.1250	1.2216	1.4830
Gasoline (All Grades, After Taxes) (cents per gallon)	1.0000	1.1342	1.2338	1.5455
Food CPI-U	1.0000	1.0236	1.0641	1.1173
Food at home (CPI-U)	1.0000	1.0174	1.0603	1.1133
Food away from home (CPI-U)	1.0000	1.0310	1.0686	1.1166

Table 1. Food and Energy Prices for 2005 through 2007 and Forecasted Prices for 2008

	Prices in Excess of Core Inflation – Cumulative Price Changes – Base Year 2005			
	2005	2005 to 2006	2005 to 2007	2005 to 2008
Electricity (Residential) (cents per kilowatt hour)	1.0000	1.0814	1.0787	1.0982
Fuel Oil (cents per gallon)	1.0000	1.1046	1.2226	1.7736
Natural Gas (dollars per 1,000 cubic feet)	1.0000	1.0577	0.9747	1.0618
LP Gas (cents per gallon)	1.0000	1.1000	1.1726	1.4109
Gasoline (All Grades, After Taxes) (cents per gallon)	1.0000	1.1092	1.1848	1.4734
Food CPI-U	1.0000	0.9986	1.0151	1.0452
Food at home (CPI-U)	1.0000	0.9924	1.0113	1.0413
Food away from home (CPI-U)	1.0000	1.0060	1.0196	1.0446

Source: Table prepared by the Congressional Research Service (CRS). Energy price data from the U.S. Department of Energy, U.S. Energy Information Administration, issued May 6, 2008. Food price and Core CPI-U data from the U.S. Bureau of Labor Statistics and U.S. Department of Agriculture, Economic Research Service (food price forecast for 2008, issued April 25, 2008). Core CPI-U forecast based on Congressional Budget Office Economic Projections, released February 15, 2008.

Methodological Approach

As noted above, the basic approach taken in this analysis is to estimate the marginal effects of increased food and energy prices on poor and low-income consumer units. The estimates presented here are based on CRS analysis of BLS 2005 CEX data, which measures spending on various consumer goods and services by households. Component price changes (actual through 2007, projected 2008) for food (food purchased for consumption at home, food purchased away from home), home energy (electricity, natural gas, fuel oil, propane (liquid petroleum)), and gasoline (all grades, including taxes) were applied to the sample of approximately 35,000 consumer units on the CEX, representing nearly 117 million consumer units.[1] For purposes of this narrative, the term consumer units and households will be used interchangeably in this memorandum. Regional differences in actual and forecast price changes for food, electricity, natural gas, and gasoline were applied to households on the CEX; national price changes for fuel oil and LP Gas were applied, as regional variations in cost were not available. In applying actual and forecast price changes, only price changes in excess of core inflation were used. (See **Table 1**). The analysis thereby assumes that household incomes keep pace with underlying *core inflation* over the period, and that the added burden of increasing food and energy prices is measured by the degree to which those prices exceed core inflation. As noted earlier, no changes in consumer behavior are assumed. Consequently, the estimates depicted here likely reflect upper bound estimates of the marginal effects of food and energy price increases over the 2005 to 2008 period on household living standards.

[1] Consumer units on the CEX comprise 1) all members of a household who are related by blood, marriage, adoption, or other legal arrangements; 2) a person living alone or sharing a household with others, but who is financially independent; or 3) two or more persons living together who use their income to make joint expenditures.

Two measures are developed to estimate the marginal effects of food and energy price changes on household living standards (see **Table 2** and **Figure 2**):

- *Adjusted-Income Relative to Poverty Measure*: Estimates the effects of food and energy prices on household income by treating food and energy price increases in excess of core inflation as if those increases result in a loss of income. The change in adjusted-income relative to poverty is measured as the change in the number of households estimated as poor, on an adjusted-income basis, assuming food and energy prices were the same as core inflation, compared to actual and forecast food and energy price increases that exceed, or are forecast to exceed, core inflation.

- *Adjusted-Spending Relative to Poverty Measure*: Estimates the effects of food and energy prices relative to household spending, by treating food and energy price increases in excess of core inflation as if those increases result in an equivalent reduction in other spending. It measures the effect of increased food and energy prices as if those increases completely crowd out other household spending, making the household worse off, by consuming less of all other goods and services. The effect is measured by subtracting excess food and energy spending from total spending on all other goods, and comparing total spending to the households' poverty thresholds.

As we discussed, a third measure is developed which estimates household's *fuel burden*, where fuel spending is shown as a percent of total household income and alternately as a percentage of household spending on all goods and services. In the United Kingdom (UK) households are considered in "fuel poverty" if they spend 10% or more of their income on fuel. No such concept has been officially adopted in the United States.

For very low income households, aggregate household spending on the CEX tends to be significantly greater than aggregate income. To some extent, this phenomenon might incur in part due to households drawing on savings during certain periods (e.g., during a period of unemployment, or retirement) to maintain household expenditure levels. However, the CEX is generally thought to do a better job of collecting information about households' spending patterns than in collecting information about their sources and levels of income, and it is thought that income consequently tends to be under-reported on the survey.[2] For this reason, the marginal effects of expenditures on food and energy are shown both relative to a marginal change in income, as well as a change in spending, as defined by the first two measures described above.

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[2] See for example, Bruce D. Meyer and James X. Sullivan, *"Measuring the Well-Being of the Poor Using Income and Consumption."* **Journal of Human Resources** 38 Supplement, 2003, pp.. 1180-1220.

The official U.S. poverty line in use today was developed in the early 1960s.[3] It was developed by setting a minimal standard based on food consumption, derived from research that used data from the U.S. Department of Agriculture's (USDA) 1955 Household Food Consumption Survey. From that research, it was found that an average U.S. family spent one-third of its pre-tax income on food. A standard of food adequacy level was set by pricing out the USDA's Economy Food Plan, a bare-bones plan designed to provide a healthy diet for a temporary period when funds are low. Once priced, an overall poverty income level was set by multiplying the food plan by three, to correspond to the findings from the 1955 USDA Survey that an average family spent one-third of its pre-tax income on food, and the remaining two-thirds for everything else. Since originally adopted in 1969 as the official U.S. poverty measure, it has changed little, with the exception of being adjusted each year for overall price changes in the economy, as measured by Consumer Price Index for all Urban Consumers (CPI-U). As such, the poverty line reflects living standards that prevailed in the mid-1950s, and is often characterized as an "absolute" poverty measure, in that it is not been adjusted upwards as standards of living in the country have improved over the decades since it was first developed. The official poverty line has virtually little or no bearing today to the cost of a market basket of goods and services that might be deemed minimally adequate for households overall, nor for how that market basket might differ for families of varying circumstance. Nonetheless, the poverty line is still useful as one benchmark to assess the effects of the economy and policy on society's most vulnerable members.

Census Bureau poverty income thresholds vary by family size and composition. In 2007 (the latest available) the preliminary estimated annual Census poverty threshold for an individual under age 65, living alone, is $10,787; for a family of two with a householder under age 65, $13,955, and for a family of four, $21,201. Families are considered poor if their corresponding incomes are below the specified thresholds.

In this analysis, Census poverty thresholds for families of varying size and composition for 2005 were merged on the 2005 CEX, according to characteristics of the consumer unit (age of householder and number of members in the unit). For purposes of determining a consumer unit's (household's) poverty status, their post-tax income, including the value of food stamps, was compared to the unit's corresponding poverty threshold. This measure of income poverty differs from the official measure, in that it is based on post-tax income, rather than pre-tax income under the official measure, and includes the cash value of any food stamps the household receives, whereas food stamps are not included in the official poverty measure. Additionally, an expenditure poverty level was also constructed, by comparing the consumer units' total spending to their corresponding poverty thresholds.

Noted earlier, it should be recognized that as poverty is currently measured in the U.S. based on income, rather than consumption, estimates of changes in food and energy prices on households standards of living are not directly accounted for in official U.S. poverty statistics. *The estimates presented in this memorandum illustrate estimated changes in spending due to energy and price inflation in excess of core inflation (i.e., price inflation for all items excluding food and energy) for low-income households near the poverty line, and*

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[3] For a history of the development of the official U.S. poverty measure, see: *The Development of the Orshansky Poverty Thresholds and Their Subsequent History as the Official U.S. Poverty Measure*, by Gordon Fisher. Available on the internet at: [http://www.census.gov/hhes/www/povmeas/papers/orshansky.html].

should not be construed as the effect of food and price inflation on official poverty. The effect of price changes will only be captured by official U.S. poverty statistics to the extent to which family incomes ultimately fail to keep pace with overall inflation (holding all things constant), as poverty thresholds are indexed for inflation.

Results – Estimated Effects of Rising Food and Energy Prices on Poor and Low-Income Households

Table 2 shows that of the nearly 117 million households represented by the 2005 Consumer Expenditure Survey, 14.7 million (12.6%) were estimated to have incomes below poverty in that year, and 12.2 million (10.4%) to have aggregate household expenditures below poverty. The table shows estimated effects on food and fuel prices on *adjusted-income* and *adjusted-spending* measures relative to poverty defined above. A summary of the number of households affected by relative price changes in food, energy (home energy, and gasoline), and food and energy combined is shown in **Figure 2**.

Table 2 shows that if household incomes only kept pace with core inflation, increases in food prices in excess of core inflation from 2005 to 2008 are analogous to a decrease in real income such that an estimated 216,000 households would have *adjusted-incomes* that fall below poverty, with all other things being held equal. The percent with *adjusted-incomes* below poverty is estimated to increase from 12.6% of households to 12.8% of households when the relative effect of higher food prices over the three-year period is factored in.

When viewed in terms of total spending relative to poverty, rather than income, increased food prices over the 2005 to 2008 period have the estimated effect of decreasing households' standard of living, such that the number of households with sub-poverty spending levels, based on the *adjusted-spending* measure, increases by an estimated 335,000, from 12.204 million (10.4% of households) to 12.538 million (10.7% of households).

The table shows, of the three major components – food, home energy, and gasoline – the increase in gasoline prices has the greatest estimated effect on household living standards for those who are near poverty. Based on changes in *adjusted-income* relative to poverty resulting from gasoline prices exceeding core inflation, an additional 720,000 households are estimated to have their standard of living fall below the poverty level; based on changes in *adjusted-spending relative* to poverty, 952,000 households are estimated to have their living standard fall below the poverty level.

When food, home energy, and gasoline price increases are taken together, the number of households estimated to see their living standards fall below the poverty level ranges from 1.2 million, based on a change in *adjusted-income*, to 1.6 million, based on a change in *adjusted-spending*. When measured on the basis of income relative to poverty, without accounting for increased prices, 12.6% of households are estimated to be poor. After factoring in the excess costs of food, home energy, and gasoline, the effect is as if an additional 1.2 million households had their standard of living fall below poverty, increasing the poverty rate from 12.6% to 13.6%, or a 7.7% increase.

When measured on the basis of total household spending relative to poverty, the effect of increased food, home energy, and gasoline prices reduces household living standards to the extent that an additional 1.6 million households are estimated to have *adjusted-spending* levels that would be below the poverty level, all other things being held constant. When

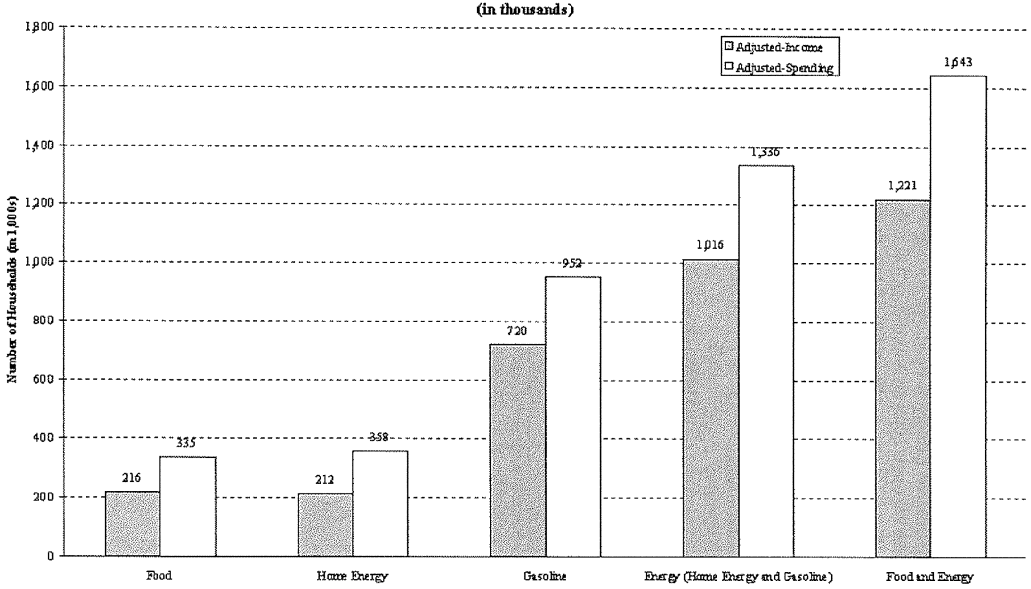
viewed on this basis, 10.4% of households would be considered poor based on household spending, before factoring in food, home energy, and gas price increases, but 11.8% would be considered poor after factoring in those prices – a 12.1% increase in the number of households with sub-poverty living standards resulting from increased food and energy prices.

Table 2. Estimated Effects of Food and Energy Prices in Excess of Core Inflation from 2005 through 2008 on Number of Households with Relative Income or Spending Below Poverty (Number of Household Units in 1,000's)

	Relative Income below Poverty				Relative Spending below Poverty			
	Number	Change in number	Percent change	Percent of total units	Number	Change in number	Percent change	Percent of total units
Number of households below poverty based on income or spending	14,741			12.6%	12,204			10.4%
After excess costs above core inflation from:								
Food	14,957	216	1.5%	12.8%	12,538	335	2.7%	10.7%
Home Energy	14,953	212	1.4%	12.8%	12,561	358	2.9%	10.7%
Gasoline	15,461	720	4.8%	13.2%	13,156	952	7.6%	11.2%
Energy (Home Energy and Gasoline)	15,757	1,016	6.6%	13.5%	13,539	1,336	10.2%	11.6%
Food and Energy	15,962	1,221	7.7%	13.6%	13,846	1,643	12.1%	11.8%

Source: Congressional Research Service (CRS) estimates from analysis of U.S. Bureau of Labor Statistics 2005 Consumer Expenditure Survey and food and energy price inflation from 2005 through 2008 (forecasted).

Figure 2. Estimated Increase in Number of Households with Living Standards Below Poverty based on Adjusted-Income or Adjusted-Spending (Accounting for Food and Energy Price Increases in of Excess of Core Inflation from 2005 through 2008) (in thousands)



Source: Figure prepared by the Congressional Research Service based on analysis of 2005 Consumer Expenditure Survey (CEX) data and food and energy price changes from 2005 through 2008 (forecasted).

Fuel Burden

Table 3 provides an alternative approach to estimating the effects of rising energy prices on households in terms of households' *fuel burden*, where fuel spending is calculated as a percentage of total household income and alternately as a percentage of household spending on all goods and services. As noted earlier, in the UK households are considered in *"fuel poverty"* if they spend 10% or more of their income on fuel. Applying a *"fuel poverty"* definition to U.S. households, an estimated 14.7 million (12.6%) spent 10% or more of their *income* on home energy (includes electricity, natural gas, fuel oil, LP gas, but excludes wood, coal, and kerosene). For 15.1 million households (12.9%), spending on home energy amounted to 10% or more of total household *spending*. Factoring in price changes in home energy from 2005 through 2008, increased home energy prices over the period are estimated to increase the number of "fuel poor" households from 14.7 million to 17.2 million, when viewed in terms of household income, and from 15.1 million to 18.7 million, when viewed in terms of household spending – an increase of 17% and 24%, respectively in the number of "fuel poor" households. It should be cautioned in interpreting these numbers that households would likely change their behavior when facing increased fuel costs, and the actual number of *"fuel poor"* households resulting from energy price increases would be less than that shown in **Table 3**.

Table 3. Estimated Number of "Fuel Poor" Households -- 2005 Baseline and Baseline Adjusted for Fuel Price Inflation from 2005 through 2008 (Fuel Burden of 10% or more of Income or Total Spending)
(Numbers in 1,000's)

	Fuel as a share of income		Fuel as a share of spending	
	Number	Percent	Number	Percent
Baseline (pre-inflation)	14,725	12.6%	15,077	12.9%
After excess inflation (2005 - 2008)	17,227	14.7%	18,716	16.0%
Change	2,502	17.0%	3,639	24.1%

Source: Estimates prepared by the Congressional Research Service (CRS) based on analysis of Bureau of Labor Statistics 2005 Consumer Expenditure Survey data and fuel price data from the U.S. Department of Energy, U.S. Energy Information Administration (issued May 6, 2008).

Memorandum July 15, 2008

TO: House Ways and Means Committee
Attention: Matt Weidinger

FROM: Thomas Gabe
Specialist in Social Policy
Domestic Social Policy Division

SUBJECT: Update of Energy and Food Prices

This memorandum is in response to your request for updated forecasts of food and energy prices that were originally included in a May 14, 2008 CRS memorandum entitled "Effects of Increasing Energy and Food Costs on Poor and Low-Income Households' Living Standards." As food and energy prices have increased since then, the effects on poor and low-income households would be somewhat greater than estimated in the May 14th memorandum. As we discussed, estimating those effects would take longer than the time available to meet your needs, so only updated price information is included in this memorandum. **Table 1** and **Figure 1**, depicting food and energy prices that were included in the May 14th memorandum, have been updated here to reflect the most recently available price forecasts for 2008. Please don't hesitate to call me at 7-7357 if you have further questions.

Food price forecasts for 2008 presented in the May 14th memorandum were based on U.S. Department of Agriculture (USDA) Economic Research Service's (ERS) forecast issued on April 25, 2008. The estimates included here are based on the USDA ERS' most recent forecast, issued on June 20, 2008. Back in April, the ERS was forecasting overall food price inflation of between 4.0% and 5.0% (5% was used in the May 14th memorandum), whereas in June 2008, the ERS is forecasting overall food price inflation of between 4.5% and 5.5%, with inflation of food purchased at home ranging from 5.0% to 6.0%. The high end of the forecasted range is presented in **Table 1** and **Figure 1**, as the ERS June forecast does not explicitly account for potentially higher corn and soybean prices that may result from recent flooding in the Midwest.

Most recent energy price forecasts are higher than earlier forecasts presented in the May 14th memorandum. For example, the U.S. Department of Energy (DOE), U.S. Energy Information Administration (EIA) May 6, 2008 forecast for home fuel oil was $2.99 per gallon; the most recent (July 8) forecast for home fuel oil in 2008 is $3.40 per gallon. Similarly, natural gas for 2008 was forecasted at $14.40 per 1,000 cubic feet back May, but

in July was forecasted at $15.11 per 1,000 cubic feet, and gasoline for 2008, forecasted at $3.57 per gallon back in May, is forecasted at $3.89 per gallon based on EIA's July forecast.

The forecast for core-inflation (all items other than food and energy) presented here for 2008 is 2.2%; it's the same as that used in the May 14th memorandum that was based on the Congressional Budget Office (CBO) Economic Projections, released February 15, 2008. The CBO has not issued an updated forecast. Core inflation is arrived at by factoring out direct food and energy components, which tend to be subject to volatile price shocks; core inflation is often used to measure underlying long-term inflation trends in the economy. Ultimately, long-term changes in energy prices may feed back to affect the prices of other goods and services, which will be captured in the core CPI.

Cumulative price changes over the 2005 to 2008 (forecast) period are presented in **Figure 1**. In the figure, prices are normalized to 2005, which has a base value of 1.0. In addition to changes in energy (residential electricity, fuel oil, residential natural gas, propane (liquid petroleum, or LP gas), gasoline (retail, all grades including taxes)), and food prices, changes in core price inflation for all goods and services other than food and energy (CPI-U-Core) is shown.

Figure 1 shows, for example, that fuel oil prices are forecasted to be over twice (2.1 times) as high in 2008 than in 2005 – over 15 times that of core inflation (7.2%). Gasoline prices are forecasted to be 68% higher in 2008 than in 2005. Residential electricity prices and natural gas prices are both forecasted to be 19% higher in 2008 than in 2005. Food prices are forecasted to be nearly 12% higher in 2008, than in 2005.

Table 1. Food and Energy Prices for 2005 through 2007 and Forecasted Prices for 2008

	Price Indices			
	2005	2006	2007	2008
CPI - U	195.29	201.59	207.34	213.15
CPI-U-Core (Less Food and Energy)	200.89	205.92	210.73	215.37
Electricity (Residential) (cents per kilowatt hour)	9.40	10.40	10.60	11.20
Fuel Oil (cents per gallon)	162	183	206	340
Natural Gas (dollars per 1,000 cubic feet)	12.70	13.75	13.00	15.11
LP Gas (cents per gallon)	176	198	215	274
Gasoline (All Grades, After Taxes) (cents per gallon)	231	262	285	389
Food CPI-U	190.7	195.2	202.92	214.08
Food at home (CPI-U)	189.8	193.1	201.25	213.32
Food away from home (CPI-U)	193.4	199.4	206.66	215.96

	Annual Inflation Rate		
	2005 to 2006	2006 to 2007	2007 to 2008
CPI - U	3.2%	2.9%	2.8%
CPI-U-Core (Less Food and Energy)	2.5%	2.3%	2.2%
Electricity (Residential) (cents per kilowatt hour)	10.6%	1.9%	5.7%
Fuel Oil (cents per gallon)	13.0%	12.6%	65.0%
Natural Gas (dollars per 1,000 cubic feet)	8.3%	-5.5%	16.2%
LP Gas (cents per gallon)	12.5%	8.6%	27.4%
Gasoline (All Grades, After Taxes) (cents per gallon)	13.4%	8.8%	36.5%
Food CPI-U	2.4%	4.0%	5.5%
Food at home (CPI-U)	1.7%	4.2%	6.0%
Food away from home (CPI-U)	3.1%	3.6%	4.5%

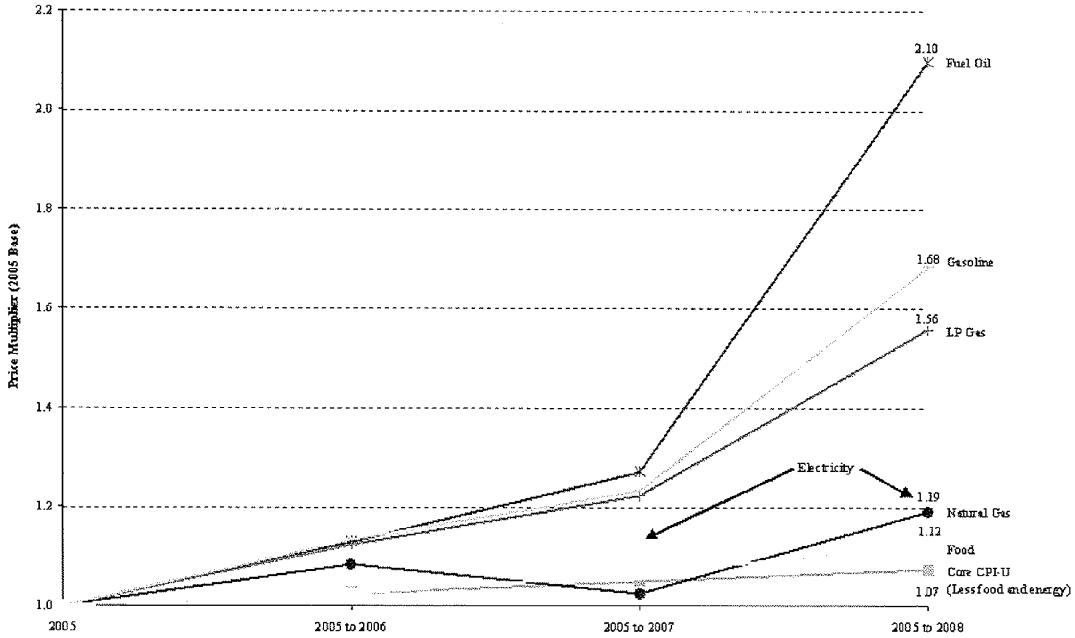
	Cumulative Price Changes -- Base Year 2005			
	2005	2005 to 2006	2005 to 2007	2005 to 2008
CPI - U	1.0000	1.0323	1.0617	1.0914
CPI-U-Core (Less Food and Energy)	1.0000	1.0250	1.0490	1.0720
Electricity (Residential) (cents per kilowatt hour)	1.0000	1.1064	1.1277	1.1915
Fuel Oil (cents per gallon)	1.0000	1.1296	1.2716	2.0988
Natural Gas (dollars per 1,000 cubic feet)	1.0000	1.0827	1.0236	1.1898
LP Gas (cents per gallon)	1.0000	1.1250	1.2216	1.5568
Gasoline (All Grades, After Taxes) (cents per gallon)	1.0000	1.1342	1.2338	1.6840
Food CPI-U	1.0000	1.0236	1.0641	1.1226
Food at home (CPI-U)	1.0000	1.0174	1.0603	1.1239
Food away from home (CPI-U)	1.0000	1.0310	1.0686	1.1166

Table 1. Food and Energy Prices for 2005 through 2007 and Forecasted Prices for 2008

	Prices in Excess of Core Inflation – Cumulative Price Changes – Base Year 2005			
	2005	2005 to 2006	2005 to 2007	2005 to 2008
Electricity (Residential) (cents per kilowatt hour)	1.0000	1.0814	1.0787	1.1194
Fuel Oil (cents per gallon)	1.0000	1.1046	1.2226	2.0267
Natural Gas (dollars per 1,000 cubic feet)	1.0000	1.0577	0.9747	1.1177
LP Gas (cents per gallon)	1.0000	1.1000	1.1726	1.4848
Gasoline (All Grades, After Taxes) (cents per gallon)	1.0000	1.1092	1.1848	1.6119
Food CPI-U	1.0000	0.9986	1.0151	1.0505
Food at home (CPI-U)	1.0000	0.9924	1.0113	1.0519
Food away from home (CPI-U)	1.0000	1.0060	1.0196	1.0446

Source: Table prepared by the Congressional Research Service (CRS). Energy price data from the U.S. Department of Energy, U.S. Energy Information Administration, issued July 8, 2008. Food price and Core CPI-U data from the U.S. Bureau of Labor Statistics and U.S. Department of Agriculture, Economic Research Service (food price forecast for 2008, issued June 20, 2008). Core CPI-U forecast based on Congressional Budget Office Economic Projections, released February 15, 2008.

Figure 1. Change in Prices for Food, Energy, and All Other Goods and Services 2005 to 2008



Source: Figure prepared by the Congressional Research Service. Energy price data from the U.S. Department of Energy, U.S. Energy Information Administration, issued July 8, 2008. Food price and Core CPI-U data from the U.S. Bureau of Labor Statistics and U.S. Department of Agriculture, Economic Research Service (food price forecast for 2008, issued June 20, 2008). Core CPI-U forecast based on Congressional Budget Office Economic Projections, released February 15, 2008.

Mr. WELLER. Thank you Mr. Chairman.

Mr. Chairman, these are people who don't want handouts, but like all Americans, they want to be able to afford the gas they need to get to work. They want to afford power for their homes, and to keep their families cool this summer and warm this winter. That is not too much to ask, but that is something this Congress has been totally incapable of delivering.

The reason for all this is simple and increasingly obvious. The current leadership's refusal to increase energy supplies in effective and environmentally safe and sensible ways. This is nothing new. Unfortunately, Democratic leaders have been blocking new energy supplies for literally the last two decades.

For example, former President Clinton vetoed legislation Congress passed in 1995 authorizing more environmentally safe exploration and development of oil in Alaska, oil that today would be helping to keep our energy prices down. In fact, I believe about 1.4 million barrels of oil a day would be in the pipeline today had that legislation been signed into law, and that would replace Venezuela as a foreign supplier.

I would also note this past Monday, the President made an announcement regarding his intention to change the executive order allowing increased access on public lands giving the opportunity to increase supplies. We have already seen the impact on the price of oil as a result of that announcement, where the price per barrel of oil has dropped $10 on Tuesday and Wednesday immediately following that announcement. Imagine the impact on the price of oil if only Congress would also act to increase supplies, particularly for oil supply, and that would help workers, particularly those that are at the edge of poverty or below the edge of poverty, get to work.

So, our very first order of business when it comes to poverty should be to reverse the damage already done to American families, and that means increasing the energy supplies which will reduce energy prices and energy-induced poverty.

As for the draft proposal we are considering today, before a similar hearing last August I introduced legislation, H.R. 3243, that would count more current antipoverty benefits as income. That legislation would improve our understanding, both of who is poor and how effective current antipoverty programs are. By better counting the help taxpayers already provide, my legislation would cut the real poverty rate in half while spotlighting those who need additional help to escape poverty.

The proposal offered by my friend Mr. McDermott takes a different approach. To his credit, the Chairman's proposal would count some, but still not all, current antipoverty benefits as income, but the Chairman's proposal would also increase by even more the income someone needs to officially escape poverty. That is like advancing the football five yards but moving the goalpost another 20 yards further away.

As a result, the Chairman's approach would dramatically increase the number of Americans who would be counted as poor. Using today's formula, there are currently 36 million Americans we consider poor. We all agree that is far too many, but under the Chairman's proposal, and without any change in anyone's real standard of living, there would be at least 52 million poor Ameri-

cans. 15 million more, or a 40-percent increase in the total number of those considered to be in poverty.

This proposal is especially ironic given prior proposals by my friend the Chairman. In 2005, my friend sought to make it a national goal to eliminate poverty in the United States within 20 years, and that is a laudable goal, something I would like to see achieved. Yet today, our Chairman proposes to increase poverty by adding 15 million more Americans to the poverty rolls. What's more, adopting this proposal would guarantee the United States would never eliminate poverty so long as some Americans earn less than others spend.

Despite these differences, it is important to note that all sides agree on the need to count more current antipoverty benefits as income, which my legislation would do, and the Chairman's proposal also includes. Our failure to do so, as Dr. Blank notes, means we have no effective measure of how our antipoverty policies have improved the economic well-being of low-income families over time. We can pass legislation to count more current benefits as income tomorrow, and in my view we should.

Mr. Chairman, I very much want to work with you, we have had some successes when we do, and I look forward to today's testimony. Thank you.

Chairman MCDERMOTT. Thank you. We could engage in a debate about oil, but I don't think we are going to go there today. Although I do have a bill here for gas stamps if you would like to look at it.

[Laughter.]

Mr. WELLER. Gas stamps.

Chairman MCDERMOTT. Which would do something immediately rather than drilling in 10 years, but we won't talk anymore.

Mr. WELLER. If we would increase supplies, the prices would go down, and people wouldn't need those gas stamps, Mr. Chairman.

[Laughter.]

Chairman MCDERMOTT. We are going to start with Sheldon Danziger as our first witness. Dr. Danziger is from

Ms. BERKLEY. Mr. Chairman? May I submit my opening statements?

Chairman MCDERMOTT. Oh, surely.

Ms. BERKLEY. I could give them or submit them, but maybe in the interest of time

Chairman MCDERMOTT. Yes, we want to move because we have got stuff coming.

Ms. BERKLEY. Alright, then may I submit them for the record?

Chairman MCDERMOTT. Without objection.

Ms. BERKLEY. Thank you.

Chairman MCDERMOTT. Sure.

[The prepared statement of Ms. Berkley follows:]

Statement of Congresswoman Shelley Berkley
Subcommittee on Income Security and Family Support
Hearing Examining the Measuring American Poverty Act
July 17, 2008

Thank you Mr. Chairman:

Congress oversees many programs that seek to aid our poorest citizens and give them a hand up to better their situation. If we hope to efficiently and effectively target limited resources it is vital that we have poverty measures that accurately reflect where poverty exists and who is experiencing it. The system used currently to determine poverty for the purposes of allocating federal aid such as Food Stamps, S-CHIP, Medicaid and low or no cost school meals has serious shortcomings. Even under this flawed system, nearly 10% of people in Nevada are living below the poverty line.

The rapid growth in Southern Nevada over the last several years has led to an increase in the cost of living in the area. Las Vegas has also experienced a critical lack of affordable housing, forcing people to live farther and farther from where they work and to spend more and more on commuting. Factors such as these are not adequately addressed in the current poverty measures.

I can tell you that in Las Vegas you would need to earn much more than $21,200—the 2008 Federal Poverty Guideline for a family of four —to adequately house, provide transportation, feed, and clothe your family, let alone afford health care and other necessities.

The draft legislation we are discussing today, based on the recommendations of the 1995 panel, would be a positive step in creating a measure that accurately gauges who needs assistance and how effective the policies of Congress are in battling poverty.

I thank the witnesses for their expert testimony and I hope that Congress will be able to advance this or similar legislation to improve the current, obsolete measure.

Chairman MCDERMOTT. Dr. Danziger is the Distinguished University Professor of Public Policy at the Gerald Ford Public Policy School in Ann Arbor.

Dr. Danziger.

STATEMENT OF SHELDON DANZIGER, PH.D., H.J. MEYER, DISTINGUISHED UNIVERSITY PROFESSOR OF PUBLIC POLICY, GERALD R. FORD SCHOOL OF PUBLIC POLICY, UNIVERSITY OF MICHIGAN, ANN ARBOR, MICHIGAN

Dr. DANZIGER. I am pleased to have the opportunity to testify today

Chairman MCDERMOTT. Let me just say, we would ask you to keep your comments to 5 minutes so we have some time for questions, and the rest of your testimony has been entered into the record, so you

Dr. DANZIGER. Thank you. I am planning to summarize the highlights from my written remarks.

Chairman MCDERMOTT. Good.

Dr. DANZIGER. I am here to comment on and support the ideas put forth in the draft proposal of the Measuring American Poverty Act.

I have three key points to make. First, the official poverty rate, which was adopted in the late 1960s, remains an important social indicator. Despite its flaws, the official poverty rate provides valuable information on how far we still have to go to achieve President Johnson's goal of ending income poverty. I think it is very important, especially for the historical record, that the Census Bureau continues to publish this measure every year, as your bill suggests.

Second, I want to point out that social scientists have spent a lot of time over the last three decades studying how to better measure poverty. There is widespread support among the research community for an updated measure based on the recommendations of the Panel on Poverty and Family Assistance of the National Academy of Sciences. In full disclosure, I was a member of that panel, so I obviously have long ago endorsed the report.

What is important is that the NAS panel laid out the case as to why a modern poverty measure needs to have both a change in the poverty thresholds and a change in the resources that are counted. Again, the draft act does an excellent job of specifying how the NAS panel's recommendations in both areas could be moved forward by the Census Bureau and other statistical agencies.

Third, I present some data analysis that I am not going to discuss in my oral testimony, that shows that a modern poverty measure would also do a better job of showing us the extent of poverty after the market, that is after individuals earn wages, salaries, private pensions, etc., and a better job of measuring the antipoverty effectiveness of government transfers. The fact that the act specifies that we measure both poverty before taxes and transfers and poverty after taxes and transfers is, I think, important.

Let me mention very briefly the historical record. We have talked a lot about the NAS measure in recent years. There was a 1976 study on poverty measurement mandated by Congress in 1974 and it also came to conclusions that are quite similar to those of the NAS. I quote that report in my testimony. The key point to make

is that the 1976 panel also suggested that it was appropriate to both raise the poverty cut-offs and to include additional sources of income.

I think it is particularly important, as I mentioned, that we maintain an official Census Bureau series on progress against the official measure because of its historical nature. The Nobel prize-winning economist James Tobin, Robert Lampman, and a lot of other policy analysts who worked in the Johnson Administration when the war on poverty was started clearly saw at that time that the official poverty measure would eventually need to be revised. Lampman in 1971 wrote, "As I see it, the elimination of income poverty is usefully thought of as a one time operation in pursuit of a goal unique to this generation. That goal should be achieved before 1980, at which time the next generation will have set new economic and social goals."

Thus, several decades later, it is very appropriate that we think about a new antipoverty goal, but it is also important to reflect on the difficulties we have had, which I have argued and written about, that are primarily due to economic changes that began in the 1970s. These changes have kept wages from growing as they did in the 25 years after the end of World War II.

Even if one adds many non-cash benefits, the earned incomes tax credit and subtracts taxes, I think where you and Mr. Weller are in agreement, one would still have a poverty rate which is not close to zero. This tells us something about the economic difficulties the economy has experienced over the last several decades.

In sum, the draft act is very important. I think it is appropriate to have a separate measure of medical risk as the act specifies. I will be happy to answer questions about anything else in my testimony at the end of the prepared remarks.

Thank you very much.

[The prepared statement of Mr. Danziger follows:]

Testimony before the Subcommittee on Income Security and Family Support, House Committee on Ways and Means Hearing on "Establishing a Modern Poverty Measure,"

Sheldon Danziger[1]
University of Michigan
July 17, 2008

I would like to thank Chairman McDermott and members of the subcommittee for inviting me to testify about how we might use improved methods to measure poverty and better assess the anti-poverty effectiveness of public programs and policies. I am pleased to endorse the ideas set forth in the draft proposal of "The Measuring American Poverty Act."

In this testimony, I make three key points. First, the official poverty rate, adopted in the late-1960s, is one of our nation's most important social indicators. Despite its flaws, the official poverty rate provides valuable information on how far we still have to go to achieve President Johnson's goal of ending income poverty. It is very important, especially for the historical record that the Census Bureau continues to publish this measure each year.

Second, social scientists have spent substantial time over the past three decades studying how to conceptualize and implement a poverty measure that better reflects the extent of poverty and the anti-poverty effectiveness of public programs and policies. There is widespread support among poverty researchers for an updated poverty measure based on the recommendations of the Panel on Poverty and Family Assistance of the National Academy of Sciences (NAS). Such a measure requires both changes in the poverty thresholds and changes in the resources that are counted.[2] The draft of "The Measuring American Poverty Act" does an excellent job of specifying how the NAS panel's recommendations can be moved forward by the Census Bureau.

Third, I present some illustrative estimates based on data from the March Current Population Surveys (CPS) that show the kind of measure the NAS Panel endorsed is likely to be only modestly higher than the official measure at the time the new series is established. This is because the two primary changes have opposite effects. Updating the poverty threshold to more accurately reflect what it means to be poor in the 21st century would raise the number of people who are poor based on their total annual income before government taxes and transfers (e.g., the sum of income from wages, salaries, self-employment, interest, dividends, rents, private pensions, etc.). On the other hand, adopting a comprehensive income definition that more accurately reflects the resources available to low-income families would add "near-cash, non-cash" transfers and tax credits received and subtract income and payroll taxes paid and would reduce the number of people who are poor and increase the measured anti-poverty effectiveness of government programs (i.e., the difference between total income after taxes and transfers and total income before taxes and transfers).[3]

The Official Measure of Poverty as an Important Social Indicator

The official poverty measure, adopted shortly after President Lyndon Johnson declared

War on Poverty, remains an important indicator of our nation's economic well-being. Although it receives less attention than the monthly unemployment rate or the quarterly growth rate in gross domestic product, the announcement of the official poverty rate each year by the Census Bureau calls attention to our progress or lack of progress in raising the living standards of those at the bottom of the economic ladder.

James Tobin, the Nobel-prize winning economist, noted the importance of the official poverty measure as a national indicator more than 35 years ago:

> "Adoption of a specific measure, however arbitrary and debatable, will have durable and far-reaching political consequences. Administrations will be judged by their success or failure in reducing the officially measured prevalence of poverty. So long as any families are found below the official poverty line, no politician will be able to claim victory in the war on poverty or ignore the repeated solemn acknowledgments of society's obligation to its poorer members (1970: p.83)."[4]

Tobin and President Johnson's other economic advisors were wrong, however, when they predicted that the benefits of economic growth would continue to be shared widely in the 1970s and future decades as they had been in the 1950s and 1960s. For example, Robert Lampman assumed that the nation would be required to choose a new measure of poverty because he expected the official poverty rate to be reduced to zero by 1980.

> "As I see it, the elimination of income poverty is usefully thought of as a one-time operation in pursuit of a goal unique to this generation. That goal should be achieved before 1980, at which time the next generation will have set new economic and social goals, perhaps including a new distributional goal for themselves (1971: 53)."[5]

That goal has never been achieved. Progress against poverty, as officially measured, stalled in the early-1970s, primarily because economic growth slowed and because the benefits of economic growth since that time have not been shared across the earnings distribution. These economic changes had their largest negative effects on workers with no more than a high school degree. Their wage gains in the two decades following World War II were largely based on employment in unionized, high-wage manufacturing jobs. Today, labor-saving technological changes, a globalizing economy, and other factors continue to depress the economic prospects of less-educated workers--they earn lower inflation-adjusted wages than they did 30 years ago.

As a result, the official poverty rate in 2006, 12.3 percent, was the same as it was in 1975. In 2006, the official poverty rate was 24.3 percent for African Americans, 20.6 percent for Hispanics, and 36.5 percent for single mothers with children. The rates fro these groups are similar to the poverty rate for all Americans about 50 years ago--22.4 percent in 1959. Thus, Lampman's remarks about the official poverty measure confirm that the Census Bureau should continue to report the official poverty rate because it reveals how far we still have to go to reach President Johnson's goal.

A Poverty Measure for the 21st Century

Poverty researchers and analysts have long discussed revising the official measure of poverty. The 1974 Amendments to the Elementary and Secondary Education Act directed the Department of Health, Education and Welfare (HEW) to "study ways of improving the accuracy and currency of the present measure of poverty (1976, p. xxi).[6] Although the report did not make specific suggestions for revising the official measure, it reviewed evidence that suggested both that the poverty threshold be revised upwards and that the resource measure be revised to include non-cash transfers (such as food stamps) that had began to grow rapidly in the early 1970s.

> "Commonly proposed changes in the definition of poverty would raise the poverty cutoffs and increase the number of persons who would be counted as poor.....Changes which lower the poverty count....include counting non-cash subsidies like food stamps as income.... (1976, p. xxiii)"

Two decades later, raising the poverty threshold and expanding the resource concept were among the NAS panel's key conclusions:

> "The poverty thresholds should represent a budget for food, clothing, shelter (including utilities), and a small additional amount to allow for other needs (e.g., household supplies, personal care, non-work-related transportation (1995, p. 4)."

> Family resources should be defined–consistent with the threshold concept–as the sum of money income from all sources together with the value of near-money benefits (e.g., food stamps) that are available to buy goods and services in the budget, minus expenses that cannot be used to buy these goods and services. Such expenses include income and payroll taxes, child care and other work-related expenses, child support payment to another household, and out-of-pocket medical care costs, including health insurance premiums (1995, p.5)."

Note that both the 1976 report and the 1995 report call for simultaneously modernizing both the poverty thresholds and the resource measure. It is conceptually inconsistent to criticize the official measure and then respond by only raising the poverty threshold or only expanding the resources that are included. The draft of "The Measuring American Poverty Act" appropriately directs the Census Bureau to modernize both the poverty threshold and the income measure.

The 1976 HEW report and the 1995 NAS report are careful to note that many difficult choices must be made. Some involve choices dictated by available data; others involve choices that are politically-sensitive. For example, both reports suggest that the official measure is flawed because it does not adjust for geographical differences in prices. The NAS panel proposed an adjustment for differences in housing costs by region and size of metropolitan area. But it also recognized that the data available meant that such an adjustment would have

limitations. Geographic adjustments raise issues of political feasibility. For example, does adjusting the poverty thresholds for geographical differences in the cost of living imply that the standard deduction or personal exemptions in the federal income tax should also be geographically adjusted?

Fortunately, over the past decade analysts from the Census Bureau and the Bureau of Labor Statistics have continued to refine many of the measurement issues raised by the NAS panel. For example, Garner and Short (2008) demonstrate that it is feasible to implement an NAS-style improved poverty measure and consistently define both the poverty thresholds and family resources using available data.[7] Their analysis follows many of the recommendations of a 2004 workshop convened by the Committee on National Statistics to review the research on alternative poverty measurement in the years following the 1995 report.[8]

These and other Census Bureau reports show that government researchers have the expertise to move quickly to conduct the analyses proposed in the draft of "The Measuring American Poverty Act." As the NAS panel suggested, it is appropriate, as the draft Act specifies, to base the modern poverty threshold on data from the Consumer Expenditure Survey that reflects expenditures on food, clothing, shelter and utilities. If these data had been readily available in the 1960s, I suspect that Mollie Orshansky would not have relied solely on spending on food when she developed the official poverty thresholds.[9]

I also endorse the development of a separate measure of "medical care risk," as the draft Act specifies. I do not think that spending for medical care should be included in the calculation of the poverty threshold. Rather, the NAS panel and the draft Act both specify that health care expenses should be subtracted from total annual income along with work-related child care and work-related transportation expenses. The NAS concept of food, clothing, shelter and utilities is consistent with President Franklin Roosevelt's famous statement about the extent of poverty during the Great Depression of the 1930s, "I see one-third of a nation ill-housed, ill-clad, ill-nourished."

An Illustrative Example of an NAS-style Measure

The NAS panel recognized that there would be transitional issues related to the adoption of a modern poverty measure. It suggested that one could always standardize the data so that the official rate and the modern rate would be same in the baseline year. Figure 1, based on Census Bureau calculations, shows that an NAS-type measure does not represent a radical departure from the historical measure. In 1999, the official rate, 11.9 percent and the NAS rate, 12.2 percent, are quite similar. Over the 7 years shown in the figure, the NAS measure increases more than the official measure because the NAS poverty line increases with the spending of the median two-adult, two-child family on food, shelter, clothing and utilities, whereas the official poverty line increases only by the consumer price index.

Figure 2 is based on my calculations from the annual March Current Population Survey data. For persons living in single-mother families who are poor before taxes and transfers, the

solid line shows the importance of government benefits according to the official measure. That is, it first measures the poor as those whose incomes before taxes and transfers fall below the official poverty line. Then it measures how much of the total cash income (the official resource measure) of these poor people come from government cash benefits (the anti-poverty spending counted in the official measure). For 2006, these data suggest that about one-third of the total annual income of the poor comes from government benefits.

The dotted line shows the importance of government benefits to persons living with single mothers who are poor before taxes and transfers under an NAS-style measure. For this calculation, a greater percentage of persons living with single mothers are counted as poor because the NAS poverty threshold is higher than the official threshold. But, the importance of government benefits as a share of total resources is substantially higher–about half in 2006–because the resource measure includes near cash transfers (such as food stamps) and tax credits (such as the earned income tax credit) less income and payroll taxes paid.

Thus, an NAS-style measure, over time, is likely to show a higher poverty rate to the extent that the expenditures of the median family on food, clothing, shelter and utilities rise more than the consumer price index. But, it is likely to show a greater reduction in poverty due to government programs and policies because it counts important benefits that are not counted by the official measure.

Summary

Poverty researchers conducted a major review of the poverty measure in both the mid-1970s and the mid-1990s and concluded at both times that, on the basis of social science evidence, that the official poverty measure should be modernized. Over the last decade, researchers at universities, the Bureau of Labor Statistics and the Census Bureaus have continued to refine the recommendations of the National Academy of Sciences Panel on Poverty and Family Assistance. The draft of "The Measuring American Poverty Act" builds on this experience and provides a promising roadmap to producing a modern poverty measure for the 21st century.

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[1]Sheldon Danziger is Henry J. Meyer Distinguished University Professor of Public Policy, Gerald R. Ford School of Public Policy, University of Michigan,735 South State St., Ann Arbor, MI 48109. He was a member of the Panel on Poverty and Family Assistance. Any views expressed are his and not those of any organization or agency.

[2]Citro, Constance, F. and Robert T. Michael, eds. 1995. Measuring Poverty: A New Approach. Washington, D.C.: National Academy Press.

3 For example, a Census Bureau report, Experimental Poverty Measures: 1999, P-60-216 (October 2001), shows an official poverty rate of 11.8 percent and an NAS-style measure of 12.0 percent that reflected the best available data at that time (Figure 2, p.7, Official and MIS rates).

[4]Tobin, James. 1970. "Raising the Incomes of the Poor." In K. Gordon, ed., Agenda for the Nation. Washington, D.C.: Brookings Institution.

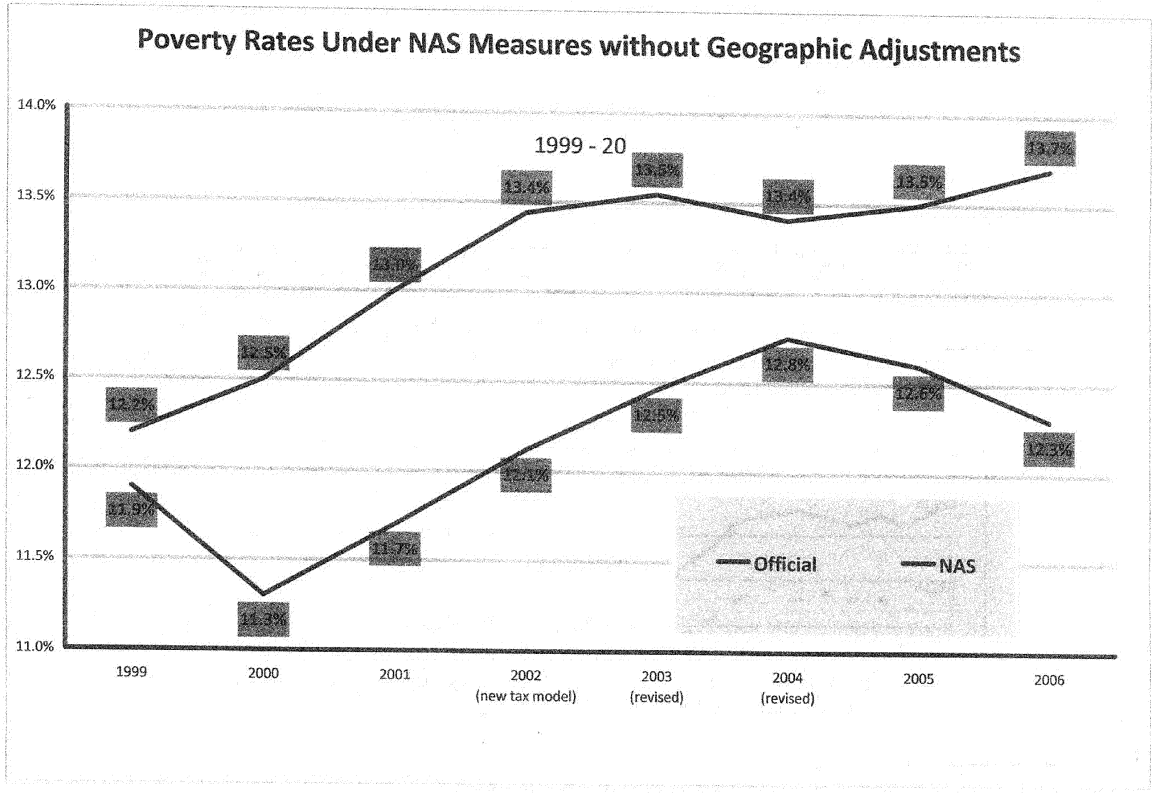
[5]Lampman, Robert. 1971. Ends and Means of Reducing Income Poverty. Chicago: Markham.

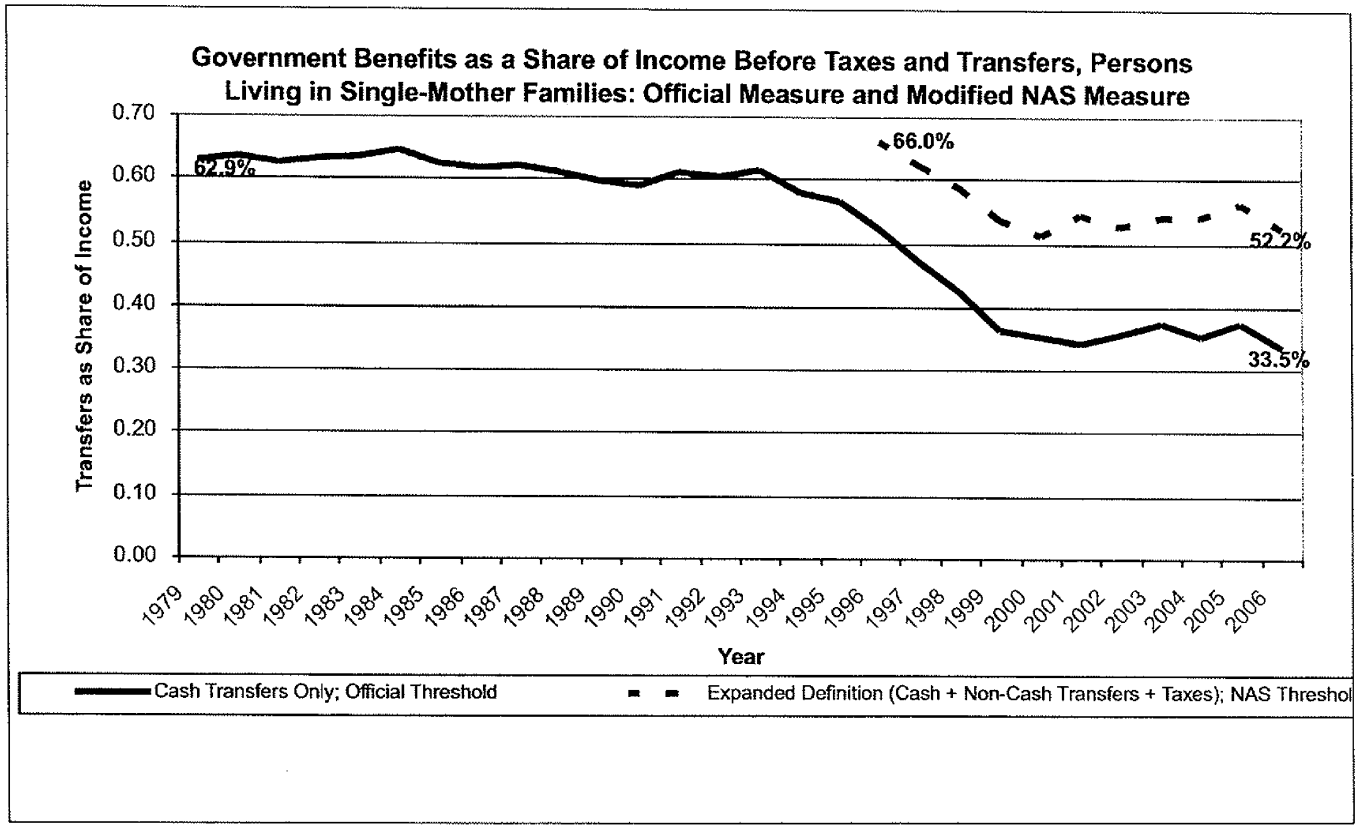
[6] U. S. Department of Health, Education, and Welfare. 1976. The Measure of Poverty: A Report to Congress as Mandated by the Education Amendments of 1974. Available at: http://www.census.gov/hhes/www/povmeas/pdf/measureofpoverty.pdf

[7]Garner, Thesia I. and Kathleen S. Short. 2008. "Creating a Consistent Poverty Measure over Time Using NAS Procedures: 1996-2005," U.S. Department of Labor, Bureau of Labor Statistics: BLS Working Paper 417.

[8] Iceland, John. 2005. "The CNSTAT Workshop on Experimental Poverty Measures, June 2004." Focus: Newsletter of the Institute for Research on Poverty, University of Wisconsin-Madison, Vol.23, No.3.

[9]Orshansky, Mollie. 1963. "Children of the Poor." Social Security Bulletin, Vol. 26, No. 7: 3-13.


Poverty Rates Under NAS Measures without Geographic Adjustments
1999 - 20
14.0%
13.5%
13.0%
12.5%
12.0%
11.5%
11.0%
12.2%
12.5%
13.0%
13.4%
13.6%
13.4%
13.5%
13.7%
11.9%
11.3%
11.7%
12.1%
12.5%
12.8%
12.6%
12.3%
Official
NAS
1999
2000
2001
2002
(new tax model)
2003
(revised)
2004
(revised)
2005
2006


Government Benefits as a Share of Income Before Taxes and Transfers, Persons Living in Single-Mother Families: Official Measure and Modified NAS Measure
Transfers as Share of Income
0.70
0.60
0.50
0.40
0.30
0.20
0.10
0.00
62.9%
66.0%
52.2%
33.5%
1979
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
Year
Cash Transfers Only; Official Threshold
Expanded Definition (Cash + Non-Cash Transfers + Taxes); NAS Threshol

Chairman MCDERMOTT. Thank you very much.

Doug Nelson is the president and CEO of the Annie E. Casey Foundation in Baltimore.

Mr. Nelson.

STATEMENT OF DOUGLAS W. NELSON, PRESIDENT/CHIEF EXECUTIVE OFFICER, ANNIE E. CASEY FOUNDATION, BALTIMORE, MARYLAND

Mr. NELSON. Thank you Mr. Chairman, thank you Members of the Committee. I appreciate the invitation to speak on this issue and especially the opportunity to appear on a panel with some of the Nation's foremost research economists.

I am here because I believe that this Committee's effort to establish a modern poverty measure can powerfully contribute to a bipartisan consensus around policies that in the long run will yield greater security and success for America's low income families and children.

The Annie E. Casey Foundation's commitment to helping vulnerable children is probably matched only by our determination to come to conclusions guided by quality data and useful indicators. I think every year since 1990 we have released an annual Kids Count data book which seeks to be the best available data to measure social, educational, economic, and physical conditions of America's children State by State. We care about this kind of data because we are convinced that it helps and has helped leaders and citizens make better decisions about how to improve the lives of children and families.

Since its inception almost 20 years ago, Kids Count has tracked a core set of indicators for measuring child need and the effectiveness of programs designed to meet those needs. Clearly, of all the measures we rely on, none is more fundamental or consequential than how we assess a family's economic standing.

That is why the Annie E. Casey Foundation has been so distressed at the Nation's continued reliance on what is an outdated, incomplete, and misleading measure of poverty. Today, almost everybody would agree that the current definition of poverty, which sets the threshold at about 21,200 for a family of four, utterly fails to yield anything remotely close to a well thought out or accurate measure of who is genuinely poor in the United States. Indeed, scholar Nicholas Eberstadt of the American Enterprise Institute has aptly dubbed the poverty measure 'America's worst statistical indicator.'

The current measure is flawed in two fundamental ways. First of all, it badly underestimates the actual cost of paying for basic and essential needs that American families are expected to be able to meet. Secondly, the current measure significantly underestimates the total income, resources, and benefits that many of today's families actually receive and use to meet those minimum needs.

Children's advocates across the country are right now rallying around a proposed campaign to cut the Nation's child poverty rate in half over the next decade. Yet many of our most promising approaches to improving the economic fortunes of children, expanding the earned income and child tax credits for working families, ex-

tending child care subsidies, increasing utilization of food stamps, providing housing assistance, many of these things are not even recognized under today's method of measuring poverty.

Excluding these resources makes little sense, especially since they are among the very resources that have the greatest potential to pull families out of the deep and persistent poverty that hurts children the most.

Evidence is overriding that when families are entrapped in persistent poverty, childhood problems multiply. Almost 90 percent of the families who end up losing their kids to the foster care system in this country are poor. Poor kids are five times more likely to miss learning proficiency benchmarks in school than kids from more economically secure families. Kids growing up in poor families are far more likely to drop out of school, get pregnant, or get in trouble with the law.

There is every reason to worry that this persistent sustained family poverty that triggers these kind of childhood problems will grow, particularly as more entry level, low-skilled jobs in the American economy are impacted by an increasingly global labor market.

We can now, as a country, reasonably predict that without appropriate policy reforms, an increasing share of American families will have to settle for wages that simply cannot buy enough to sustain a family at an American standard of living. This is a drag on America's competitiveness.Economists estimate that it costs almost $500 billion a year to allow child poverty to persist at current rates.

An accurate measure of poverty would go a long way toward better informing how to help these vulnerable families. By including food stamps, EITC, child tax credit, and housing assistance, we would be better able to determine the impact of these important policy investments, as well as tracking more carefully who is taking advantage and who is not taking advantage of such assistance. By modernizing the current method to approximate what it actually takes to cover basic family needs, policy makers would be much better equipped to understand the real cost of getting by in America.

For all of those reasons, we support the legislation being considered by this Committee. More Americans want to hear about what their political leaders will do to fight poverty, and it is time for all parties in this now-stalemated definitional debate to table their disagreements and come together around a more credible and policy-relevant approach to poverty measurement. A decade and a half after its release, the NAS report still provides the best roadmap for getting to a useful poverty measure.

At Casey, we find it encouraging that this Subcommittee is considering a bill that would enact virtually all the key NAS recommendations.

We commend the Subcommittee Chairman, the Ranking Member, and the Members of this Committee for seriously grappling with this urgent, much-needed reform.

Let me close, Mr. Chairman, by saying we have learned a lot and we know a lot about how we can more accurately measure poverty. It is time to apply that learning as a first step toward reducing poverty and the harm it does for our kids and for this country's future.

Thank you very much.

[The prepared statement of Mr. Nelson follows:]

Statement of Douglas W. Nelson, President/Chief Executive Officer, Annie E. Casey Foundation, Baltimore, Maryland

Thank you for the opportunity to testify today in support of efforts to revise the methods used to measure poverty in this country. My name is Douglas W. Nelson and I am President and CEO of the Baltimore-based Annie E. Casey Foundation, a national philanthropy devoted to fostering public policies, human services and community supports that meet the needs of disadvantaged children and families.

The Annie E. Casey Foundation's passionate commitment to helping those children and families who are most vulnerable is matched only by our determination to be guided by quality data and useful indicators. This is illustrated by our KIDS COUNT project and our numerous investments aimed at measuring the impact of our grants on the status, conditions and well-being of the families our grantees are seeking to help. In our judgment, good measures of kid and family conditions are indispensible to good policy decisions and public accountability.

Every year since 1990, we have released an annual KIDS COUNT Data Book, which uses the best available data to measure the educational, social, economic and physical well-being of children, state by state. The Foundation also funds a national network of state-level KIDS COUNT projects that provide a more detailed, county-by-county picture of the condition of children. We care about this data because it helps leaders and citizens make better decisions about how to improve the lives of children and their families.

Let me give you an example of what I mean. Several years ago, our KIDS COUNT grantee in Rhode Island developed an improved measurement of childhood lead poisoning that was much easier for the public to track and understand. Rhode Island KIDS COUNT's baseline data showed that one in four children in Rhode Island had a history of lead poisoning upon entering kindergarten, and that one in three children in the state's five core cities entered kindergarten with a history of lead poisoning.

The publication of this data sounded an alarm in Rhode Island that this was a serious issue in need of immediate attention. Community leaders responded in many effective ways, including better enforcement of lead laws and enhanced parent education. Their efforts resulted in the development of city and state lead poisoning prevention plans and the passage of a comprehensive lead poisoning prevention law by the General Assembly. The incidence of childhood lead poisoning has decreased significantly during the decade since the indicator was first published—down to 6 percent statewide and 10 percent in the core cities.

Since its inception nearly 20 years ago, KIDS COUNT has tracked a core set of indices for measuring child need and the effectiveness of programs designed to meet those needs. But, clearly, of all the measures we rely on, none is more fundamental or consequential than how we assess a family's economic standing. That's why Casey has been so distressed at the nation's continued reliance on an outdated, incomplete, and misleading measure of poverty.

All of this is to explain why I am here today and why I believe it is essential that we act now to change our deeply flawed poverty measure. It is essential for a simple reason: the lack of an accurate, credible, and relevant poverty measure has itself become a major impediment to combating poverty effectively. If we want to solve the poverty challenge, step one is to get our heads around the true scope, dimension, and dynamics of the problem.

Today, almost no one would argue that the current poverty definition—which sets the poverty threshold at 21,200 for a family of two adults and two children—yields anything remotely close to a well thought out, accurate measure of who is genuinely poor. Indeed, scholar Nicholas Eberstadt of the American Enterprise Institute has dubbed the poverty measure "America's worst statistical indicator."

Most Americans have a pretty solid sense of what it means for a family to be poor. As Rebecca Blank of the Brookings Institution has said, poor families are folks who do not have enough resources to afford decent housing, to find and hold a job, to be well fed and reasonably healthy and to pay for the things that their children need to be safe and succeed in school. Unfortunately, our current poverty measure—crafted in the 1960s—simply does not reflect this common sense understanding of what it means to be poor in 2008.

The current measure is flawed in two fundamental ways. First of all, it underestimates the actual cost of paying for the core of basic and routine needs that American families are expected to meet. Developed when food represented one-third of a typical family's budget, the poverty line was drawn by the Federal Government

by calculating the cost of a basic grocery budget and multiplying by three. The dollar figure developed in 1963 has only been adjusted for inflation, even though food is now one-seventh of a typical family's budget, and even though the formula does not take into account the actual cost of other core expenses, such as housing and work-related costs, that take up a much greater portion of family budgets today than they did 40 years ago. In the opinion of some analysts, the current formula produces a "poverty line" income that may amount to less than 60 percent of what it actually costs a family to meet its basic needs.

The second basic flaw of the current measure is that it significantly underestimates the total income, resources or benefits that many of today's families actually receive and use to meet those basic needs. The current poverty formula fails to include valuable non-cash benefits such as housing assistance, the Earned Income Tax Credit, the Child Tax Credit and food stamps. Consequently, the official federal poverty data not only understates the cash and benefits many low-income families enjoy, but also gives us no indication of how well some of our key public investments in the economic well-being of low-income families are paying off.

Across the country, children's advocates are rallying around a proposed campaign to cut the nation's child poverty rate in half over the next decade. Yet many of our most promising approaches to improving the economic fortunes of children—expanding the earned-income and child tax credits for working families, extending child care subsidies, increasing the utilization rates for food stamps and other means-tested programs—would never be recognized by today's poverty measure. These are, however, among the very resources and benefits that have the potential to pull families out of the deep and persistent poverty that hurts kids most.

The evidence is overwhelming that when families are entrapped in persistent poverty, childhood problems multiply. Ninety percent of the families who end up losing their kids to foster care are poor. Poor kids are five times more likely to miss learning proficiency benchmarks than kids from families with greater economic security. Kids growing up in poor families are far more likely to drop out of school, get pregnant, or get in trouble with the law. There is every reason to worry that the persistent, sustained poverty that triggers these problems could grow, particularly as more entry level jobs in the American economy are lost to the global labor market. As a result, more families are settling for wages that cannot produce enough to sustain a family at an "American" standard of living.

Persistent structural poverty is a serious drag on American competitiveness, optimism, cohesion and influence in the world. Economists now estimate that child poverty costs the nation about $500 billion a year. That burden will worsen in time. This nation—a dramatically aging one—cannot afford to have as much as a fifth of its children grow up without the skills, supports, connections and opportunities needed to participate in the nation's new economy.

Unfortunately, the poverty measure as it exists today does not tell us enough about what is actually helping these children. There is ample evidence that the poverty threshold would be higher, and would convey a far more accurate sense of real need, if the poverty measurement objectively reflected how much a family needs to "get by" or "make ends meet" in America today.

Under a number of approaches used in recent years to calculate this "getting by" threshold, a basic family budget would include food, housing, out-of-pocket medical costs, child care, transportation and taxes. Although there were significant regional differences, most of the methods used resulted in a "poverty" standard that was approximately twice the current poverty level. The Economic Policy Institute, for example, which calculated this basic family budget for more than 400 communities, came up with a median budget of 39,984 for a family of four. By contrast, the poverty threshold at the time of the study was just 19,157.

A large part of our work at the Annie E. Casey Foundation focuses on what we call Family Economic Success—the ability of families to secure adequate incomes, stabilize their finances, accumulate savings and live in safe, economically viable communities. In order to determine whether federal policies, and the work of our grantees, are effective, we need a more accurate and relevant measure of how families are progressing financially. At the very least, the measure should be designed to assess whether struggling families have the minimum resources they need to lead safe and healthy lives.

An accurate poverty measure might lead to changes in some of the strategies we use to help families in need. By including food stamps, the EITC, the child tax credit and housing assistance in the poverty measurement, we would be able to better determine who was taking advantage of these programs and who wasn't—and how these families were doing as a result. We might find, for instance, that those who were receiving certain types of government assistance showed greater success at

moving out of poverty, while those who weren't remained stuck in place year after year.

Having an accurate poverty measure would also provide us with better information for considering long term, as well as short term strategies—what we call a "two-generation approach" to fighting poverty. Such an approach supports, stabilizes, and empowers low-income working parents through work support programs, while at the same time aggressively equipping their kids with the skills, experiences and values to increase their odds of avoiding hardship, forming intact families and contributing to national prosperity.

Universal preschool and quality child care and after school programs, for example, are considered key tools for ensuring that the next generation of kids is better equipped to move out of poverty. A new approach to calculating poverty could provide a measure of the short and long term success of such strategies and create public and political will to expand those programs that have proven successful in reducing poverty. It could also help re-target programs that are not working as well.

Clearly, there are many excellent reasons for changing the poverty measure. Why then hasn't it happened? Why do we tolerate such an egregiously flawed indicator of such a critically important measure of the social and economic status of our nation's citizens—especially when we know how to do better?

There are doubtless lots of reasons. Inertia, convenience, and the advantages of keeping a measure that allows 40 years of longitudinal comparisons all reinforce acceptance of the status quo.

Perhaps even more important, there are real philosophical and political differences about who should be counted as poor. Some critics have consistently preferred changes in the measure that would reduce the numbers of Americans counted as poor. They point to the failure of the current measure to take into account the value of public benefits, and they argue that many who are now counted as poor have far greater access to comforts and conveniences (e.g., cars, televisions, air conditioning) than those counted as poor 40 years ago.

Other critics have favored changes that would increase the number of Americans described as poor. They contend that the amount of money required to minimally support a family—at today's housing, transportation, child care, utility, and medical costs—significantly exceeds the current poverty threshold, and that millions of families with pre-tax incomes well above the official poverty line experience great difficulty in paying for what are now considered the basic requirements of a stable family life.

These two competing perspectives—each harboring some solid, if partial, correctness—have been allowed to paralyze the nation's poverty measurement reform efforts for decades. It's time that we recast the debate beyond an either/or choice to a new common sense consensus that draws thoughtfully from the analyses of both perspectives.

Changing the poverty measurement would also likely result in shifts in the allocation of certain federal funding for some groups. In her 2008 paper, "How to Improve Poverty Measurement in the United States," Rebecca Blank notes that the alternative poverty measurement guidelines developed by the National Academy of Sciences (NAS) resulted in fewer people with large in-kind benefits being classified as poor, an increase in working poor after work expenses were calculated, and changes in the number of elderly poor due to such factors as the subtraction of out-of-pocket medical expenses.

Some dissatisfaction is inevitable among competing groups likely to feel that their interests will be adversely affected by the new numbers. The process, however, will be far less painful if from the beginning the poverty measurement is taken out of the political realm.

For the NAS guidelines or similar approaches to succeed, the Executive Office of the President should no longer have direct control of the poverty measurement. Unlike the vast majority of economic statistics, which are the responsibility of federal statistical agencies, updating the poverty measure is overseen by the Office of Management and Budget. That means any changes in the measure must pass through the White House. Ms. Blank got to the heart of the matter in her recent paper: "If we need an example of why economic statistics should be in the hands of statistical agencies, the long-term stalemate over poverty measurement provides an excellent one!"

At Annie E. Casey, we endorse Ms. Blank's suggestion for assigning to a federal statistical agency the authority to develop an alternative measure of poverty that embraces the key elements of the National Academy of Sciences' approach. That means including non-cash benefits and refundable credits, accounting for child care costs and out-of-pocket medical expenses and, if feasible, adjusting for some regional differences in the cost of living.

Like any good poverty measure, this new approach would follow data over time in order to understand trends and ensure that policy aimed at fighting poverty is really working. I believe that changing the poverty measure should be viewed as part of overall efforts in this country to hold ourselves and our policy makers accountable for honestly confronting the problems faced by those in need—and coming up with clear and measurable responses.

We should add that other existing efforts to measure child well-being in this country are, like the poverty measurement, inadequate and out-dated. That is why the Annie E. Casey Foundation strongly supports efforts being considered by both chambers of Congress that would create a state-level survey on child well being. Like a more accurate poverty measure, this survey would provide each state with reliable, accurate data about how their children are doing, across a wide range of indicators—education, social and emotional development, health and safety, attitudes and family well-being. This information would help states better target their scarce resources and more usefully assess whether child well-being improves when new programs and policies are instituted.

This is clearly an opportune time to rethink the way we collect data about the lowest-income Americans. During the current election cycle, we have seen the presidential candidates talk more about poverty and economic insecurity than during any time in recent memory. A survey conduced earlier this year by *Spotlight on Poverty and Opportunity* and Freedman Consulting found a 145 percent increase in the number of times the media mentioned poverty in the context of stories about the primary campaigns.

The media is clearly responding to frequent mentions of the issue by the presidential candidates, an increase in interest by religious and other groups and a growing desire by voters to see the problem of poverty in America addressed. In fact, a new poll released in early July suggests that Americans today feel the problem of poverty deserves even more attention. The survey was conducted by Republican pollster Jim McLaughlin for *Spotlight on Poverty*, an initiative launched last October by the Annie E. Casey Foundation, the Eos Foundation and other major foundations to draw greater attention to poverty during the election. Likely voters for the 2008 presidential campaign were asked whether they agreed or disagreed with the following statement: "The media has spent an adequate amount of time during the presidential campaign covering the issue of how to fight poverty in the U.S." 56 percent disagreed; 41 percent strongly disagreed.

More Americans want to hear about what their political leaders will do to fight poverty.

It is time for both sides in this debate to table their disagreements and come together around a more credible and policy relevant approach to poverty measurement. In the words of former Sen. Daniel Patrick Moynihan: "You can't solve a problem until you first learn to measure it." We have learned a lot about how we can more accurately measure poverty. It's time to apply that learning.

Thank you.

Chairman MCDERMOTT. Thank you for your testimony.

We have been joined by Dr. Rebecca Blank, who is a Ph.D. from the Brookings Institute. Dr. Blank?

STATEMENT OF REBECCA BLANK, PH.D., ROBERT V. KERR SENIOR FELLOW, THE BROOKINGS INSTITUTION

Dr. BLANK. Chairman McDermott, thank you. I apologize for being late. What is normally a 15 minute cab ride took over an hour this morning and I——

Chairman MCDERMOTT. It is the old story of those who live closest to the church are usually the ones who are late.

[Laughter.]

Dr. BLANK. I should have walked, right.

I appreciate the chance to speak this morning, and let me give you my bottom line in agreement with the two have already testified.

Our current poverty measure is based on data over 50 years old. It doesn't measure the resources available to today's families, and it is time for a change.

A poverty measure requires two things. It requires the definition of a poverty line, which is the level above or which below you count someone as poor. The definition of resources, which is how you count what a family has to compare to that line to determine whether or not they are poor.

There are serious problems with both the resource measure and the poverty line in today's current measure of poverty. Our poverty line today is essentially three times the USDA subsistence food budget, defined based on 1985 household consumption survey data. In 1955 the average family spent one-third of their aftertax income on food.

That is no longer anywhere near true, but the current poverty line is essentially this number calculated in 1963 and updated by the consumer price index ever since then. There is no other economic statistic in use today based on 1955 data and methods developed in the early 1960s.

The poverty resource definition was simply cash income, which made sense in the early '60s, but makes no sense today. If a family receives food stamps, it doesn't count against their poverty measure. If a family receives an EITC refund check it doesn't affect whether they are poor or not. If a disabled individual starts to received Medicaid and pays less in out of pocket expenses it doesn't count for whether or not they are poor. Clearly this cash-based income definition of resources is simply insensitive to many of our most important antipoverty policies.

Why is this a problem? It is a problem because it leads us to misinterpret the effect of these policies. In 1988, President Reagan declared, "We declared war on poverty and poverty won." Well if you look at our official statistics that looks right, but the official statistics are wrong. In a very fundamental way, our poverty statistics have failed us and made it easy to claim that public spending on the poor had little effect.

The National Academy measure, which was developed in the early 1990s, was developed by a panel of which I and Sheldon were both members. The panel spent 2 years reviewing the research and developing a new recommendation for how to measure poverty in a modern and updated manner.

Since then broad support has emerged within the social science community on the approach that the National Academy suggested. The Census Bureau has developed alternative measures and research papers have discussed how to make these measurements and how to actually implement them. As Mr. Levitan is going to testify, New York City has already done this.

Mr. McDermott's draft legislation, the Measuring American Poverty Act of 2008 is an effective way to move the poverty research agenda forward. It proposes to commission the Census Bureau to develop a modern poverty measure based on the NAS recommended approach, to publish these numbers regularly, to update them with new data, and as new statistical approaches become available.

This is what we do with all of our economic statistics. It is a historical accident that poverty measurement sits essentially inside the Office of Management and Budget, defined by an OMB statistical directive. That means any change to this measure must be made through the executive office of the President, and any president or president's office, Democratic or Republican, is very reluctant to revise and change a sensitive government indicator.

There is no other major economic statistic defined by OMB directive. They are all under the control of U.S. official statistical agencies, and the poverty measure should also be in this situation.

We should not get derailed in the discussion about poverty in arguing whether poverty is actually higher or lower. Yes it does matter in terms of general appearances, but the most important thing about a poverty measure is not its absolute level, but how it tracks changes over time. It should reflect when policy changes, when the economy changes, and whether our most disadvantaged population are improving or deteriorating in terms of their economic situation.

The modern poverty measure proposed by the National Academy of Sciences reflects the best consensus about how to improve poverty measurement in the United States. Since proposed, we have a decade of research showing how this recommendation can be effectively implemented. If we want to track the well-being of America's families and effectively measure the real effects of our anti-poverty policies, we must update and modernize the measure of poverty in the United States. It is long past time to make that change.

Thank you Mr. Chairman.

[The prepared statement of Ms. Blank follows:]

Statement of Rebecca Blank, Ph.D., Robert V. Kerr Senior Fellow, The Brookings Institution

Rebecca Blank is the Robert V. Kerr Senior Fellow at the Brookings Institution in Washington, D.C. The views expressed in this testimony reflect her opinions and not those of any organization with which she is affiliated.

Chairman McDermott, Ranking Member Weller, and distinguished members of the Committee, I appreciate the opportunity to talk with you today about the need for an improved measure of poverty in the United States. Our current poverty line is based on data more than 50 years old and our poverty count does not measure the actual resources that many families have available to them.

I have been involved in the discussion of poverty measurement for many years. I was a member of the National Academies of Science's panel in the mid-1990s that recommended an improved poverty measure and which serves as the model for Representative McDermott's draft legislation, the Measuring American Poverty Act of 2008. Many of my remarks this morning are taken from the Presidential Address that I gave to the Association for Public Policy Analysis and Management last fall, in which I talked about the reasons why we have been so unsuccessful in implementing an updated and effective poverty measure in the United States (Blank, 2008).

Measuring Poverty

An economic measure of poverty requires two definitions. First, one needs to define a *poverty line or poverty threshold*, the level of income or other resources below which a particular type of family is considered poor. Secondly, one needs to define a *resource measure*, which delineates the ways an individual family's economic resources will be counted. The *poverty count* is the number of people who live in families with resources below the poverty threshold.

I emphasize these definitional items because it is important to think about poverty lines and resource definitions together. A statistically credible measure of poverty should have a poverty threshold that is consistent with its resource measure, so that the two can be used together. Unlike Representative McDermott's proposed

legislation, many proposed changes in poverty measurement in the past have emphasized changing the way in which family resources are counted, without proposing to change the poverty threshold in a consistent way.

There are serious problems in the current poverty measure with both the threshold definition and the resource definition. No simple, minor change will make this historical poverty measure accurate; a major redefinition is required.

The Historical Poverty Measure in the United States

The current poverty measure was defined in 1963 by Mollie Orshansky in the Social Security Administration. Let me discuss first the poverty line and then the resource definition that she used and that is still in use today.

The current poverty line. Orshansky created a poverty line using the calculation

Poverty line = 3 x Subsistence food budget

The subsistence food budget for a family of four was based on the Economy Food Plan developed within the USDA in 1961 using data from the 1955 Household Consumption Survey. It was described as the amount needed for "temporary or emergency use when funds are low." The multiplier of 3 was used because the average family of three or more spent one-third of their after-tax income on food in the 1955 Household Food Consumption Survey. If the average family spent one-third of its income on food, then three times the subsistence food budget provided an estimated poverty threshold. This calculation was done for a family of 4, and so-called ?equivalence scales' were used to estimate how much was needed by smaller or larger families.

The current poverty line is this number, calculated in 1963 and based on 1955 data, updated by the Consumer Price Index in each year since.

While this methodology for calculating a poverty line was fine in 1963, and was based on the best data available, it is seriously flawed in 2008. *There is no other economic statistic in use today that relies on 1955 data and methods developed in the early 1960s*. All of our major statistics, from GDP to unemployment to the current account balance, are regularly updated and revised, and based on the most recent and best data available.

It is not too strong a statement to say that, 45 years after they were developed, the official poverty thresholds are numbers without any valid conceptual basis. If one sticks with a threshold based only on food costs, the current multiplier on food costs would be 7.8 rather than 3 because food is a much smaller share of family budgets now than 45 years ago. But basing the threshold numbers on a single commodity is almost surely not the correct way to calculate these thresholds because it leaves the numbers highly sensitive to the relative price of that commodity and insensitive to the price of any other necessary purchases. For instance, while food prices have fallen over the past 43 years, housing prices have risen. Our current poverty calculation is not responsive to these changes in price and spending patterns over time.

The current resource definition. The resource measure in Orshansky's calculations was straightforwardly defined as cash income. In 1963 this was a reasonable definition. Few low-income families were paying federal taxes. In-kind programs like Food Stamps, which provide non-cash resources to low-income families, were nonexistent or very small. Thus, cash income and disposable income were largely the same among low-income households.

Forty-five years later, this resource definition is also seriously flawed, as cash income alone is no longer an adequate description of the economic resources available to low-income families. There is broad agreement that the resource measure should reflect a family's *disposable income*; that is, the income that a family has available for buying necessities such as housing and food, and after taxes and other mandatory expenditures are deducted. For instance, the recent expansion of the Earned Income Tax Credit (EITC) should provide more resources to low-wage earners; this is income we should count when estimating if a family is poor. Furthermore, many of the public assistance programs that have been created or expanded since 1963 provide benefits to low-income families through in-kind payments, such as food stamps or rental subsidies, neither of which are paid to the recipient as cash income. In a country that wants able-bodied adults to work, work expenses are unavoidable and necessary. This includes transportation costs to work as well as child care expenses for single-parent or dual-earner couples. Similarly, out-of-pocket medical expenses are typically necessary expenditures; those with large prescription drug payments each month have fewer discretionary resources than those with no medical expenditures.

Because the historical poverty measure is calculated based only on family cash income, it is unaffected by many changes in disposable income:

- If a disabled individual starts to receive Medicaid assistance and has lower out-of-pocket medical expenses, this will not affect their current poverty status.
- If a family receives food stamps and has more income left over for other items, this will not affect their current poverty status.
- If a worker receives an EITC refund check, this will not affect their current poverty status.

Clearly, a cash income-based definition of family resources is highly insensitive to many of our nation's most effective anti-poverty programs.

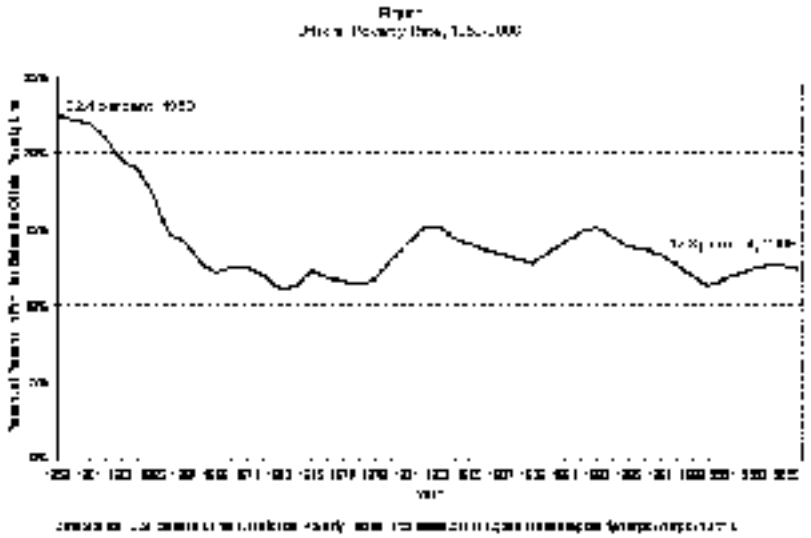
It is long past time to update both the definition of the poverty threshold and the resource definition to reflect the economic situation facing today's low-income families.

What Has Been the Effect of Using an Outdated Poverty Measure?

There is widespread agreement among virtually everyone who looks at the current poverty measure that it is seriously flawed as an economic statistic. What effect has this had?

Our poverty measurement has been impervious to most of the policies designed to improve life among low-income families that were implemented in the decades after 1963. The 1970s saw rapid growth in food stamp and housing benefits. In the 1980s, Congress enacted major tax reforms that reduced tax burdens on low-income families. In the 1990s, the expansion of the EITC provided wage subsidies to many low-wage workers. Since the 1980s, the dollars paid to public medical care has expanded enormously. In the late 1990s Food Stamp participation fell sharply, but (due to substantial program revisions) rose again in the early 2000s.

None of these program changes had any measurable affect on the U.S. poverty rate, nor could they have any effect given how poverty is measured. Indeed, the official U.S. poverty rate, shown in Figure 1, has been largely flat since the early 1970s, with some cyclical movement over the business cycle. In 1988 President Ronald Reagan declared "My friends, some years ago the Federal Government declared war on poverty and poverty won." Looking at Figure 1, this seems a reasonable conclusion.



Although public spending on the poor grew rapidly after the 1960s, its effects were invisible because our official statistic did not reflect the effect of these anti-poverty programs on the resources available to poor families. *In a very fundamental way, our poverty statistics failed us and made it easy to claim that public spending on the poor had little effect.*

Economic statistics are designed to help us track trends in economic well-being, and to interpret the effects of environmental and policy changes. Because our historical poverty statistics are so poorly measured, we have no effective measure of how

most of our anti-poverty policies have improved the economic well-being of low-income families over time.

The only group who has experienced a major decline in the official poverty data over the past 30 years is the elderly. It is not coincidental that the elderly are the one group for whom we have provided greatly expanded assistance in the form of cash income, through expansions in Social Security and in Supplemental Security Income. Hence, our assistance to this group was reflected in our official statistics

The NAS Proposal for a Modern Poverty Measure

The panel convened by the National Academies of Science (NAS) in the 1990s spent more than two years reviewing the research on different approaches to poverty measurement. The final panel report, released in 1995, recommended a redefined modern poverty measure (Citro and Michael, 1995). This new measure was conceptually consistent with Orshansky's efforts but addressed many of the problems with the 1963 definition.

The NAS panel recommended calculating a *poverty line* based on expenditures on necessities (food, shelter and clothing), "plus a little more." Their report emphasized the importance of updating this threshold calculation regularly, to reflect changes in spending patterns on necessities over time. The NAS panel recommended basing the *resource definition* on disposable income, which measures the resources available to low income families after they pay their tax bill, receive any public assistance, pay their medical bills and pay any work-related expenses. The panel addressed many other issues that I do not discuss here, such as equivalence scales (determining appropriate expenditures for families of different sizes) and geographic price variation.

Since the NAS panel report, broad support has emerged within the social science research community for the approach that they suggest. The Census Bureau has used the NAS report as the basis for alternative poverty calculations. Research papers have discussed how to best make the measurements proposed in the report, such as effectively measuring child care expenses and improving the equivalence scales. As Mr. Levitan will testify, New York City has developed a city-specific poverty measure based on this approach.

Moving Toward a Modern Method of Poverty Measurement

Mr. McDermott's draft legislation, the Measuring American Poverty Act of 2008, would be an effective way to move the poverty measurement agenda forward. This legislation proposes to commission the Census Bureau to develop a modern poverty measure based on the NAS-recommended approach, to publish these numbers regularly, and to update this measure as new data and new statistical approaches become available.

This approach would break through the political logjams that have prevented the development and utilization of an updated poverty measure.

It is an historical accident that our official poverty measure was established by a directive within the Office of Management and Budget (OMB Statistical Policy Directive 14), but it has made updating this statistic very difficult. Any change to this historical poverty definition had to come from within the Executive Office of the President, which oversees OMB. It should be obvious that it is extremely difficult to expect the White House—no matter which party controls it—to undertake an impartial review and revision of a sensitive government statistic. In fact, oversight of the historical poverty definition within OMB is a major reason why none of the proposals to update and revise this statistic have been successful.

No other major economic statistic is defined by an OMB directive. All other major economic statistics are under the control of official U.S. statistical agencies, which are charged with regularly reviewing and updating them. These agencies provide professional expertise, close knowledge of available data, and a long history of providing government statistics without political interference.

The proposal to create a modern poverty measure, housed with the Census Bureau, regularizes the poverty measure and puts it on a par with other government statistics, placing it within the statistical agency in charge of collecting and disseminating much of the data on which the poverty measure is based.

The Census Bureau has long calculated a variety of alternative poverty definitions, including a variety of definitions based upon the NAS recommendations. It has never had the authority to select among these alternative definitions, but has always been directed to look at multiple options. This bill gives Census the authority to use their expertise to create a single modern poverty measure based upon the NAS recommendations, using the best data and analytic approaches available.

At the same time, it is important to continue to calculate and report the historical poverty measure, making it available to those programs or analysts who wish to

continue to use it. A number of programs have eligibility provisions that are tied to the current poverty measure. Over time, as programs come up for reauthorization, Congress can decide whether to continue to use the historical measure or whether to utilize the modernized poverty measure. This will assure that there are no disruptions to the programs that have relied on the historical measure for many years. Those who choose to switch to the newer measure can take steps to transition to the newer measure over time, using grandfathering clauses to assure there is no one who abruptly loses benefits because of definitional changes.

A Comparison to the European Union

Mr. McDermott's proposed legislation directs Census to develop two measures of poverty, one looking at pre-tax and pre-transfer poverty and the other measuring poverty based on after-tax disposable income. The bill also authorizes money for the National Academies to develop a "Decent Living Standard" measure.

I want to say something about the value of comparing multiple measures of economic need, each measuring a different concept. The European Union has worked to develop a set of EU-wide economic statistics over the past two decades, including new measures of poverty. The EU has historically taken a very different approach to poverty than the United States, using a poverty threshold that is defined as a share of median income. The effect of this is to raise the poverty line with every increase in change in real income in the society. This makes it difficult to make progress against poverty.

While the EU continues to use a percent-of-median-income poverty line, they have moved away from a single poverty measure and have chosen instead to require that EU members regularly report on a collection of measures of economic and social deprivation, each of which focus on a different aspect of economic opportunity or disadvantage. EU nations annually report not only poverty rates within their countries, but also on joblessness, literacy, life expectancy, and other measures of well-being. This allows countries to have a fuller picture of the problems of economic disadvantage and how it overlaps with other types of disadvantage.

I find much to admire in this approach. While the U.S. collects many of these statistics, they are not regularly reported at the same time as the poverty measure, so we tend not to think about them as complementary and overlapping sources of information about disadvantaged populations within the United States.

I want to emphasize the value of looking at multiple statistics to understand and interpret problems and progress among low-income families. The pre-tax and pre-transfer poverty rate tells us something about the market distribution of incomes. By comparing this to a poverty measure based on total disposable income, we can say something about the overall effect of our tax and transfer system, showing how much it improves economic well-being among low-income families.

In the end, no income-based statistic can capture all the important dimensions of well-being, such as health, education, crime, or family functioning. The poverty rate is a measure of income adequacy and should be supplemented with measures that look at these other dimensions of family well-being.

Is Consumption Data an Alternative to Income Data?

Some have argued that consumption data provides a better measure of household resources and that the income data is flawed (Meyer and Sullivan, 2008.) Measuring consumption behavior is valuable and useful. It is not, however, appropriate to use in a national poverty measure.

Consumption does not typically measure what we mean by economic poverty. Consumption data measure something different than income data. Current consumption reflects a combination of current income, past income, and current consumption behavior. Hence, some individuals with low current income are able to consume more today because they take on debt or have savings. Poverty usually means that an individual lacks the income to consume at an adequate level. If a wage-earner has lost his job and his family is without income, most of us would consider that family poor, even if they are currently living on savings and maintaining a (temporarily) higher consumption level. If an elderly family is choosing to consume far less than they are able to, based on their income, they should be considered not poor, even if their consumption is quite low.

For most people, of course, consumption and current income are pretty much the same. Some have argued that U.S. consumption data reveals quite a few families who appear income poor but have much higher actual consumption. This is not as mystifying as it may at first appear. First, the income data collected within the survey that also collects consumption data (the Consumer Expenditure Survey) have historically been less complete and less accurate than the income data collected in our major income survey, the Current Population Survey. Secondly, there is a prob-

lem of high respondent non-response, especially among lower-income persons who respond to the Consumer Expenditure Survey; this must be carefully accounted for in order to compare similar populations between these two surveys. In a recent article, Richard Bavier (2008) indicates that when the consumption data and the income data are appropriately reconciled, the differences between them are relatively small. Indeed, both of them show very similar trends in poverty and need.

It is also worth noting that using consumption data resolves only a small set of issues in the measurement of poverty. Most of the difficult decisions—how to develop appropriate poverty thresholds; how to impute the value of in-kind benefits; how to determine equivalent poverty levels for families of different sizes; etc—are unaffected by the use of consumption versus income.

Finally, consumption data is quite costly to collect. As a result, our consumption survey is relatively small with only about 20,000 households from across the United States. This is much smaller than the samples sizes in our income survey, rendering consumption data less reliable as a source of national information on low-income families. And it makes it even more difficult to get reliable information on low-income families within subgroups by age, by race or ethnicity, or by geographic region.

The NAS report discusses the possible use of consumption data and concludes that it measures a different concept and that the current data we have available are not adequate for a national poverty measure. While there have been some improvements to the consumption data, the conclusions of that report are still relevant.

Conclusion

The actual level of poverty in this country is an important concern, indicating something about how many of our fellow citizens are in economic need. The level of poverty will always be somewhat arbitrary, no matter how it is set. I am concerned that the debate over how to best modernize the U.S. poverty statistic should not be derailed by arguments about whether a new measure raises or lowers the poverty rate relative to the level determined by the historical poverty measure. With the NAS measure, taking account of taxes (especially the EITC refunds) and in-kind income will lower poverty. But subtracting off work expenses and medical out-of-pocket expenses will raise poverty. Regardless of what this does to the overall poverty count, these are the right calculations to do in order to calculate economic need based on disposable income among low-income families.[1]

Most important is a poverty measure that tracks progress (or lack of progress) over time in an effective manner. We need a statistic that demonstrates how policy and economic changes affect the economic outcomes among low-income families. This means that getting the trend right over time is far more valuable than arguing about the level of poverty. It is the *change* in poverty that tells us whether economic opportunities are improving or deteriorating among our most disadvantaged citizens.

The modern poverty measure proposed by the National Academy of Sciences panel reflects the best consensus about how to improve poverty measurement in the United States. Since it was proposed, we now have over a decade of research showing how this recommendation can be effectively implemented with available data. If we want to track the well-being of America's low-income families, and if we want to effectively measure the effects of our antipoverty policies, then we must update and modernize the measure of poverty in the United States. It is long past time to make this change.

Reference

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[1] Indeed, one could benchmark a new poverty measure so that it produced exactly the same level value of poverty as the historical poverty measure in some transition year. Of course, the distribution of poverty across groups and regions would differ under a different measure, even if the total number was identical.

Chairman MCDERMOTT. Thank you very much.

Dr. Levitan is the Director of Poverty Research for the New York Center for Economic Opportunity in New York.

Dr. Levitan.

STATEMENT OF MARK LEVITAN, PH.D., DIRECTOR OF POVERTY RESEARCH, NYC CENTER FOR ECONOMIC OPPORTUNITY, NEW YORK, NEW YORK

Dr. LEVITAN. Chairman McDermott, Ranking Member Weller, distinguished Members of the Committee, thank you for the opportunity to testify this morning.

My remarks will focus on two topics: first, New York City's work to create a new poverty measure; and secondly, our continued belief that the Federal poverty measure must be updated along the lines proposed by the National Academy of Sciences.

First New York. In March of 2006, Mayor Michael Bloomberg established a commission for economic opportunity. The commission was charged with the task of crafting a set of initiatives aimed at reducing poverty in New York City.

In the course of their work, its members came to regard the current poverty measure as an inadequate guide for understanding the level of economic deprivation in New York, assessing the effects of current policy, or forecasting the potential impact of new policy initiatives they might propose. The commission concluded that along with programmatic initiatives to reduce poverty, the city also needed improved tools that measure it.

The Mayor embraced this recommendation, and poverty measurement became one of the projects initiated by the City of New York Center for Economic Opportunity. Over the past year the city has developed a poverty measure that adopts the National Academy of Sciences' recommendations and makes use of the Census Bureau's American Community Survey.

Compared against the current measure which only measures pretax cash income, the CEO poverty measure captures a fuller array of the resources available to low-income families. These include tax credits, nutritional assistance, and housing subsidies. That is essential for understanding poverty.

Our measure also places those resources in the context of New York's high cost of living and the need to pay for child and health care. That is essential to understanding the adequacy of our antipoverty efforts.

Under our new measure, the New York City poverty rate for 2006 is 23 percent. The corresponding rate for using the official methodology is 18.9 percent. That is an attention getting difference, but it only becomes meaningful as we sift through the details to locate how and why the change in methodology affects specific groups.

One of the most striking results from our work is that the poverty rate for elderly New Yorkers rises from 18.1 percent under the official measure to 32 percent under the CEO measure. The poverty rate for children, in contrast, hardly changes. It is 27.2 percent under the official measure and 26.6 percent under our alternative. Digging deeper, we find that the poverty rate for children living in

single-parent families is considerably lower with our measure than under the official one, 41.6 percent compared to 44.4 percent.

What these results are telling us is that even in the context of a more realistic poverty threshold, public programs, specifically the formerly uncounted tax credits, nutritional subsidies, and housing assistance are lifting some children out of poverty in ways that could not be seen under a measure that did not count these resources. Our work also suggests that medical out of pocket spending is a considerable burden to low-income seniors.

Findings like these will serve a variety of purposes. Most importantly, they will inform strategic planning by agencies across city government. We look forward to sharing the work we have done with other cities.

However, it would be a mistake for the Federal Government to stand aside in the hope that local action can fill the need to change the Nation's Federal poverty measure. First of all, it is not practical. Very few local governments have the resources available to the City of New York. Secondly, even if a number of States or localities develop new measures, the result will inevitably lead to a variety of different approaches, and this will make comparisons between them confusing to the public and to policy makers.

Even among researchers that closely identify with the National Academy of Sciences' recommendations, there are different approaches to issues such as accounting for healthcare, child care needs, and the valuation of home ownership, and subsidized housing. We would be pleased if everyone agreed with our decisions about these issues but we cannot create a standard for the Nation. Providing resources to local government and setting national standards are a fundamental responsibility of the Federal Government.

To conclude, the City of New York urges Congress to take actions needed to improve the Nation's measure of poverty. We believe the direction taken by the draft legislation entitled the Measuring American Poverty Act of 2008 would be an important step forward. We would be pleased to offer our experience in any way that can be helpful, but to underscore my earlier remark, local efforts cannot substitute for Federal action.

Thank you.

[The prepared statement of Mr. Levitan follows:]

Statement of Mark Levitan, Ph.D., Director of Poverty Research, NYC Center for Economic Opportunity, New York, New York

Chairman McDermott, Ranking Member Weller and distinguished members of the Committee, I am Mark Levitan, Director of Poverty Research for the City of New York's Center for Economic Opportunity. Thank you for the opportunity to offer testimony on behalf of the City of New York.

My remarks will address three questions:

- Why did the City create an alternative to the Census Bureau's official poverty measure for New York?
- Why did New York follow the alternative recommended by the National Academy of Sciences Panel on Poverty and Family Assistance?
- And finally, what are the implications of our project for improving the federal poverty measure?

WHY A NEW MEASURE

In March of 2006, Mayor Michael Bloomberg established a Commission for Economic Opportunity. The Commission was charged with the task of crafting a set of new initiatives aimed at reducing poverty in New York City. In the course of their

work its members grew increasingly frustrated with the data and conceptual tools at their disposal. They came to regard them as inadequate guides for understanding the level of economic deprivation in New York, assessing the effect of current public policy, and forecasting the potential impact of new policy initiatives on the City's low-income population. The Commission concluded that, along with programmatic innovations to reduce poverty, the City needed to improve the tools that measure it.

The Mayor shared the Commission's frustration and endorsed their recommendation, and poverty measurement became one of the new projects initiated by the City of New York's Center for Economic Opportunity (CEO). We began by reviewing the current poverty measure, developing a sense of its shortcomings and establishing a set of criteria for an alternative. Then we began to look at specific measurement options. We concluded that the City should base its alternative poverty measure on a set of recommendations that, at the request of Congress, had been developed by the National Academy of Sciences' (NAS) Panel on Poverty and Family Assistance.[1]

Over the past year the staff of the Center for Economic Opportunity has worked to create a measure of poverty that implements the NAS Panel's alternative. On July 13, 2008, Mayor Bloomberg announced some of our initial findings, discussed in more detail below.

We believe we have developed a better tool for understanding poverty and anti-poverty policy in New York City. We hope that other localities move in a similar direction. But the reason I am before you today is because we believe that our efforts are no substitute for a change in the way that the Federal Government's statistical agencies measure poverty.

Shortcomings of the Current Measure

The Census Bureau measures poverty by comparing a family's total pre-tax cash income against a set of thresholds (the poverty lines) that vary by family size and composition. Income is defined as cash received from any source. This includes earnings, investments, pensions, and insurance, as well as government transfers such as social security and means-tested assistance, as long as they take the form of cash. The threshold levels rise as the number of family members grows. For example, the 2006 Census threshold for a family of one adult and two children was $16,227, while for a two-adult, two-child family it stood at $20,444.[2] If a family's income falls below the threshold, each of the family members is classified as poor. The poverty rate is the proportion of the total population that is living in families with incomes below the poverty line.[3]

The apparent simplicity of this measure—a straightforward definition of resources and a yardstick against which they are measured—masks a number of significant deficiencies. As a recent review aptly concluded, "The United States got itself the worst of all worlds—an increasingly mean measure of poverty that also suggested that U.S. social programs were not making a difference when they were."[4]

Limitations of the resource measure

Pre-tax cash income is an increasingly incomplete indicator of the resources a family may use to attain an acceptable standard of living. Income is taxed and the portion that goes to government reduces what is available to families. But government also uses refundable tax credits (such as the Earned Income Tax Credit) to supplement family income. Cash income also fails to account for the effect that "near-cash" benefit programs have on living standards. Food Stamps or Section 8 housing vouchers, for example, are used as if they were money by low-income families to meet their nutritional and shelter needs. They free recipients' cash income for other necessities such as clothing or transportation. Tax credits and near-cash benefits are an increasing share of government anti-poverty expenditures; Federal spending on Food Stamps, housing subsidies, and the Earned Income Tax Credit, for example, each dwarfs expenditures for traditional cash assistance.[5] As a result, ever more of what government does to provide support to low-income families is uncounted by the Census Bureau's poverty measure.

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[1] National Research Council, Panel on Poverty and Family Assistance. *Measuring Poverty: A New Approach.* Constance F. Citro and Robert T. Michael, eds. Washington, DC: National Academy Press, 1995.

[2] U.S. Census Bureau, Poverty Thresholds 2006.

[3] A more detailed explanation for how the Census Bureau measures poverty is available at: http://www.census.gov/hhes/www/poverty/povdef.html

[4] Glennerster, Howard. "United States Poverty Studies and Poverty Measurement: The Past Twenty-Five Years," *Social Science Review*, March 2002.

[5] U.S. Bureau of the Census. *Statistical Abstract.* 2007.

Limitations of the threshold concept

The Census Bureau's income thresholds are problematic in different ways. They are based on work done in the early and mid 1960s for the Social Security Administration and reflect spending levels specified in the U.S. Department of Agriculture's "Economy Food Plan," a diet for "temporary or emergency use when funds are low." Because the survey data available at that time indicated that families typically spent a third of their income on food, the thresholds were set at three times the cost of the food plan. With the exception of some minor revisions, the only change in the thresholds since they were officially adopted in 1969 is that the Census Bureau updates them annually by the change in the Consumer Price Index.[6]

More than four decades later, these poverty thresholds have become an anachronism. First, they no longer reflect spending patterns. Food now accounts for little more than one-eighth of family expenditures. Also, housing is the largest major item in a typical family's budget, representing nearly one-third of total spending.[7]

Another of the thresholds' shortcomings is that they are uniform across the nation. The poverty line that defines who is poor in New York City is the same poverty line that applies in rural Mississippi. The need to account for differences in living costs across the nation is an obvious concern in New York City, where high housing costs (at 2.6 times those in Carroll County, Mississippi) put a tight squeeze on family budgets.[8]

A third issue concerning the thresholds is their declining value relative to the income level enjoyed by American families in the economic mainstream. Because they are only adjusted to reflect the rising cost of living, the poverty lines take no account of the rise in the standard of living. When first introduced, the poverty line for a family of four equaled roughly fifty percent of median income for a family of that size. Today this threshold is less than thirty percent of that median.[9]

A frozen-in-time measure fails to recognize that what is considered an adequate standard of income always reflects social norms at a particular time and place. Expert estimates of income adequacy levels, as well as public opinion as to what constitutes enough income to "get by," increase at roughly the same pace as increases in median family income.[10] What the experts and the public understand is poverty's social dimension. Poverty entails not only an inability to obtain a physiologically minimum level of consumption, such as enough food to avoid malnutrition, but also the inability to obtain a level of consumption that allows people to fulfill the social roles customary to children or adults in a modern society. As incomes grow for most American families, and as society becomes wealthier and more technologically complex, the resources required to be successful at school or the workplace, to be an able parent or an informed citizen rises.

Criteria for an Alternative

CEO reviewed a wide variety of alternative approaches to measuring poverty. Our thinking was guided by several criteria.

1. The new measure should be easily understood by the "non-expert" public. This suggested that rather than a radical departure from the familiar, if flawed, official measure, a new approach should maintain its structure (economic resources measured against a set of thresholds that are derived from expenditures on necessities), but seek to improve its component parts. Specifically the new measure should:

   A. Provide a more complete measure of resources.
   B. Employ thresholds that reflect differences in living costs across the country and are updated in a manner that takes account of the long-term rise in living standards.

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[6] Fisher, Gordon. "The Development and History of the Poverty Thresholds" *Social Security Bulletin* Vol. 55 No. 4., 1992. Available at www.ssa.gov/history/fisheronpoverty.html.

[7] Family expenditure shares are computed for a consumer unit consisting of a husband and wife with children from data in "Consumer Expenditures in 2005." U.S. Department of Labor, Bureau of Labor Statistics, Report 998, April 2007.

[8] This is the ratio of the U.S. Department of Housing and Urban Development's Fair Market Rents for 2007.

[9] Ziliak, James. "Understanding Poverty Rates and Gaps: Concepts, Trends, and Challenges." *Foundations and Trends in Microeconomics*. 1 (3), 2006.

[10] Fisher, Gordon. "Is There Such a Thing as an Absolute Poverty Line Over Time? Evidence from the United States, Britain, Canada, and Australia on the Income Elasticity of the Poverty Line." U.S. Bureau of the Census. Poverty Measurement Working Papers, August 1995. Available at www.census.gov/hhes/www/povmeas/papers/elastap4.html. Blank, Rebecca M. 2008. "How to Improve Poverty Measurement in the United States." *Journal of Policy Analysis and Management*. Vol. 27(2) Spring.

C. Provide a poverty rate, a count of what fraction of the city's or nation's population is living below the poverty line.

2. The new measure should be grounded in a substantial body of research and should be supported by experts in the field. Poverty measurement is a controversial topic. The credibility of a "CEO poverty measure" would rest, in part, on the degree to which it is based on research by, and consensus among, expert analysts.

3. The new measure should be a better tool for policymaking. The call for new measures of poverty came out of the frustrations experienced by people who wanted to design policies that address it. CEO put a premium on the extent to which a new measure could capture the impact of public policy.

4. A new measure should be practicable, that is, the City must be able to turn a better idea into an annual measure and do so at a reasonable cost.

WHY THE CITY CHOSE THE NAS METHODOLOGY

CEO concluded that it should base its alternative poverty measure on a set of recommendations that, at the request of Congress, had been developed by the National Academy of Sciences' (NAS) Panel on Poverty and Family Assistance.[11] While the Federal Government has yet to adopt these recommendations (except on an experimental basis), they have received extensive scrutiny by government researchers and university-based scholars.[12] The NAS methodology is widely regarded as a far superior measure of poverty compared with the official measure. (A side-by-side comparison of the official and NAS recommended measure is provided in Figure One).

The NAS Panel's recommendations in brief

1. Changes to the poverty threshold: The NAS panel recommended that the poverty thresholds reflect the amount a family needs for food, clothing, shelter, and utilities, rather than the costs of just one basic need. Specifically, the threshold should be set to equal roughly 80 percent of median family expenditures on this market basket of necessities, plus "a little more" for other necessities. The panel proposed that these thresholds be updated annually by the change in median family expenditures, ensuring that over time the poverty line reflected the long-term rise in the nation's standard of living. In addition, the NAS suggested that the thresholds be adjusted geographically to reflect differences in the cost of living across the U.S.

2. Changes to the definition of resources: The NAS panel suggested that a much more inclusive definition of family resources be used for comparison to the new thresholds. In addition to cash income, the resource measure should account for the effect of tax liabilities and credits, along with the cash value of "near-cash" benefits. The panel also recommended that resources should be adjusted to reflect necessary work expenses such as commuting costs and child care. Finally, the panel proposed that medical out-of-pocket expenses should also be subtracted from income, because what a family must spend to maintain its health is unavailable for purchasing other necessities.

FIGURE ONE: COMPARISON OF POVERTY MEASURES

	CURRENT POVERTY MEASURE	NATIONAL ACADEMY OF SCIENCES RECOMMENDATION
	Established in the mid-1960s at three times the cost of "Economy Food Plan."	Equal to roughly 80% of median family expenditures on food, clothing, shelter and utilities, plus "a little more" for misc. items.

[11] National Research Council, Panel on Poverty and Family Assistance. *Measuring Poverty: A New Approach*. Constance F. Citro and Robert T. Michael, eds. Washington, DC: National Academy Press, 1995.

[12] Much of this research is available at http://www.census.gov/hhes/www/povmeas/nas.html.

FIGURE ONE: COMPARISON OF POVERTY MEASURES—Continued

	CURRENT POVERTY MEASURE	NATIONAL ACADEMY OF SCIENCES RECOMMENDATION
THRESHOLD	Adjust annually by change in Consumer Price Index.	Adjust annually by change in median family expenditures for the items in the threshold.
	No geographic adjustment.	Adjust geographically using differences in housing costs.
RESOURCES	Total family pre-tax cash income.	Total family *after-tax income.*
		Include the value of near-cash, in-kind benefits such as Food Stamps.
		Subtract work-related expenses such as child care and transportation costs.
		Subtract medical out-of-pocket expenses.

WHAT HAVE WE LEARNED FROM OUR WORK?

Over the past year the City has developed a poverty measure that adopts the NAS recommendations to the Census Bureau's American Community Survey. Mayor Bloomberg announced some of our results on July 13, 2008. The CEO poverty measure captures a fuller array of the resources available to low-income families as they strive to meet their basic needs. That is essential to understanding poverty. It also places those resources in the context of New York's high cost of living. And that is essential to understanding the *adequacy* of our anti-poverty efforts.

Using a geographically-adjusted threshold that equals $26,318 for a family of two adults and two children and a more comprehensive definition of income, we find that under our new measure, the New York City poverty rate for 2006 is 23.0 percent.[13] The corresponding rate using the official methodology is 18.9 percent.[14] That is an attention-getting difference, but it becomes truly meaningful as we sift through the details to locate how the change in methodology affects specific groups within the City. (See Table One).

Table One: Comparison of Poverty Rates,

Using CEO and Official Methods

(Numbers are percent of group in poverty.)

	CEO	OFFICIAL	Percentage Point Difference
NYC Total	23.0	18.9	4.1
By Age Group			
Under 18	26.6	27.2	−0.6
18 thru 64	20.0	14.5	5.5
65 & up	32.0	18.1	13.9
Children (under 18), by Family Type			

[13] Following the NAS recommendations our income measure includes the effect of taxation, adds the value of nutritional and housing assistance, and subtracts work-related and medical out-of-pocket expenses.

[14] This is lower than the 19.2 percent rate reported by the Census Bureau because we must exclude people living in group quarters in our measure.

Using CEO and Official Methods—Continued

(Numbers are percent of group in poverty.)

	CEO	OFFICIAL	Percentage Point Difference
Two parents	17.2	16.5	0.7
One parent	41.6	44.4	−2.8

Source: CEO tabulations from the American Community Survey, 2006.

One of the most striking results from our work is that the poverty rate for elderly New Yorkers (persons 65 and older) changes from 18.1 percent under the official Census measure to 32.0 percent under the CEO measure. The poverty rate for children, in contrast, hardly changes; it is 27.2 percent under the official measure and 26.6 percent under our alternative. Digging deeper, we find that the poverty rate for children living in single parent families is considerably lower with our measure than under the official one, 41.6 percent compared to 44.4 percent. What these results are telling us is that, even in the context of a more realistic poverty threshold, public programs—specifically the formerly uncounted tax credits, nutritional subsidies, and housing assistance—are lifting some children out of poverty in ways that could not be seen under a measure that did not count these resources. The results also suggest that medical out-of-pocket spending is a considerable burden to low-income seniors.

Findings like these will serve a variety of purposes; most importantly, they will inform strategic planning by agencies across City government. Further reports that track changes in poverty rates over time will increase the usefulness of our work.

Some might conclude that the lesson from our experience is that the Federal Government should stand aside and let local governments develop poverty measures that address local priorities. The City believes that this would be a grievous mistake.

First, it is not practical. Few local governments have the resources available to the City of New York. Secondly, even if a number of states or localities develop new poverty measures, the result will inevitably lead to a variety of different approaches that will make comparisons between them confusing to the public. Even among researchers that are closely identified with the National Academy of Sciences' recommendations, there are differing approaches to issues such as accounting for healthcare spending, childcare needs and the valuation of homeownership and subsidized housing programs for low-income renters. Not everyone will agree with all of our choices in detail, and for good reason; as we weighed the options it became clear that there are strong arguments that could be made for a number of different approaches.

We would be pleased if everyone agreed with our decisions about these issues. But while we in the City of New York are eager to share our work and encourage other local efforts, *we can not create a standard methodology for the nation*. Providing resources to local governments and setting national standards are a fundamental responsibility of the Federal Government.

I would include another task for the Federal statistical agencies, one that is not yet been addressed, to my knowledge, by any proposed legislation. The expertise of the Census Bureau and other statistical agencies is needed to improve the usefulness of the American Community Survey (ACS) in measuring poverty. The survey is *the* Census Bureau product for measuring socio-economic conditions at a local level. The size of the sample in the Bureau's other surveys, such as the Current Population Survey or the Survey of Income and Program Participation, precludes their provision of local-level data. Increasing the sample for these surveys enough to allow representative local-area data that could be issued on an annual basis is impractical.

Unfortunately, the ACS did not exist when the NAS Panel was developing its recommendations, and it was not designed to generate a measure of poverty consistent with the NAS method. The Census Bureau, along with other Federal statistical agencies, should take a number of steps that would make the ACS more useful in this regard. Adding questions about residence in public housing, receipt of tenant-based housing assistance, and the use of childcare would be very helpful. The survey should also retain the question on Food Stamp receipt. Given the nature of the survey, however, the number of new questions that can be added is clearly limited.

So in addition, the Census Bureau should develop imputation techniques for use with the American Community Survey (ACS) as it has with the Current Population

Survey (CPS).[15] This would include models that can estimate tax liabilities and credits, medical-out-of-pocket expenses, and child care costs. Because we have employed the ACS as our principal source of data for measuring resources, we have had some experience with this work. We were able to make good use of the estimation procedures that the Census Bureau and other researchers have developed for the Current Population Survey. I believe our work demonstrates the practicality of this proposal. But while I am proud of what we have done in this regard, I have no doubt that it can be improved upon.

Conclusion

The City of New York urges Congress to take the actions needed to improve upon the Nation's measure of poverty. We believe the direction taken in the draft legislation entitled the Measuring American Poverty Act of 2008 would be an important step forward. We would be pleased to offer our experience in anyway that can be helpful, but—to underscore my earlier remarks—local efforts can not substitute for Federal action.

Chairman MCDERMOTT. Thank you very much for your testimony.

Dr. Meyer is the McCormick Tribune Professor at the University of Chicago.

Dr. Meyer.

STATEMENT OF BRUCE D. MEYER, PH.D., McCORMICK TRIBUNE PROFESSOR, HARRIS SCHOOL OF PUBLIC POLICY STUDIES, UNIVERSITY OF CHICAGO, CHICAGO, ILLINOIS

Dr. MEYER. Chairman McDermott, Ranking Member Weller, and distinguished Members of the Committee, thank you for the chance to talk to you about measuring poverty.[1]

I have seven observations. Before making them, I want to emphasize that each of them concerns how we measure poverty for the purposes of assessing poverty reduction and economic performance. The issue of eligibility determination for receipt of government programs and the allocation of Federal funds are fundamentally different issues.

One way to ensure that we have a flawed measure for the purposes of assessing poverty reduction and economic performance is to restrict ourselves to a measure that we will also use to determine program eligibility. Since program eligibility requires universally available information and simple rules, such a restriction would limit us unnecessarily.

First, our official poverty measure ignores many of the main antipoverty efforts of the last 30 years. A clear example of the weakness of the official measure is that the EITC lifted 3.7 million people above the poverty line in 2005, yet it did not affect our official poverty measure.

Secondly, the thresholds to which pre-tax money income is compared are updated annually to account for inflation using the consumer price index, or CPI. However, the CPI sharply overstates inflation. These biases accumulate over time, so that over a decade or more the bias has a substantial effect on poverty rates, more than 3 percentage points over the last 25 years.

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[15] An explanation of much of this work is provided in Short, Kathleen, Thesia Garner, David Johnson, and Patricia Doyle, *Experimental Poverty Measures: 1990 to 1997*, U.S. Bureau of the Census. 1999.

[1] McCormick Tribune Professor, Harris School of Public Policy Studies, University of Chicago.

Thirdly, an absolute poverty measure avoids one layer of subjectivity that is inherent in a relative poverty measure like that proposed. With a relative poverty measure there is an additional element of arbitrariness in that one must choose how the thresholds change in real terms each year. A relative poverty measure also has a peculiar and unattractive property: income could rise for everyone, yet relative poverty could go up also.

Fourth, we should from time to time set new goals for poverty reduction. As has been emphasized, we are using the same measure that was devised almost 50 years ago. As was previously mentioned, despite how we officially describe the measure, the thresholds have risen in real terms because of bias in the CPI. We would hope that a true absolute poverty rate would fall over time with economic growth and the success of antipoverty programs.

Thus, periodically we may want to raise the cut off for an absolute poverty measure and set new poverty reduction goals. If thresholds are raised explicitly every decade or two, that is more transparent than a complicated annual adjustment.

Fifth, consumption itself is a better measure of resources available for consumption than after tax, post-transfer income. Consumption reflects lifetime income and wealth and thus better captures the long-term prospects of a family than 1 year's income. Consumption is more likely to capture the effects of saving and dissaving, the ownership of durable goods like houses and cars, and access to credit. Consumption is also more likely to reflect private and government transfers. Consumption seems to be better measured than income for those with fewer resources. Underreporting of transfer income is very pronounced and is rising in survey data sets.

Sixth, what it means to be poor when poverty is defined by the current official standard has changed over time. This situation is true despite the official poverty rate in 1970 and 2005 being exactly the same, 12.6 percent.

As has been previously mentioned, President Reagan quipped that we fought a war on poverty and poverty won. There are plenty of statistics that disagree with that statement by Reagan, but our official poverty measure is not one of them. For example, in 1972, 54 percent of the officially poor owned a car compared to 70 percent today. In 1972, 6 percent of the poor had central air conditioning. Now 38 percent do. Table 1 in my testimony is full of statistics like this.

Seventh and last, in understanding poverty and policy, it matters whether or not you use a better measure of poverty. The effects of tax policy on poverty are evident in my Figure 4 in my testimony, which compares the pre-tax and post-tax poverty rate over the last 30 years. One can see that the 1981 and 1982 tax acts were not particularly favorable to the poor. On the other hand the 1986 tax act and the 1990 and 1993 budget agreements reduced poverty. You would not see that with the official measure.

The extent of progress against poverty for various populations is also different depending on whether one measures poverty with consumption or income. Looking at Table 2 in my testimony, you can see that using a poverty measure that uses consumption to measure poverty shows that poverty declined much more since

1980 for single-parent families and the aged than you would see with income poverty. On the other hand, progress against poverty has been less successful for married couples with children.

This type of information is essential in understanding anti-poverty policies and designing better policies for the poor. I am hopeful that in the future we will officially report multiple poverty measures not tied to program eligibility, including consumption measures and income measures that incorporate in-kind transfers and taxes.

Absolute poverty measures are an important part of this package, with thresholds periodically but infrequently revised. Such poverty measures would ensure that better information is widely available to assess the operation of the economy and design policies for the poor.

Thank you.

[The prepared statement of Mr. Meyer follows:]

Statement of Bruce D. Meyer, Ph.D., McCormick Tribune Professor, Harris School of Public Policy Studies, University of Chicago, Chicago, Illinois

Chairman McDermott, Ranking Member Weller, and distinguished members of the Committee, I appreciate the opportunity to talk to you today about the measurement of poverty in the United States.

By now you will have been reminded of the many deficiencies of our current poverty measure. In commenting on these deficiencies and considering alternative measures, I would like to make seven observations. Prior to stating these observations, I want to emphasize that each of them concerns how we measure poverty for the purpose of assessing poverty reduction and economic performance. The issue of eligibility determination for receipt of government programs and the allocation of federal funds are fundamentally different issues. One way to insure that we have a flawed measure of poverty for the purposes of assessing poverty reduction and economic performance is to restrict ourselves to a measure that we will also use to determine program eligibility. Since program eligibility requires universally available information and simple rules, such a restriction would limit us unnecessarily.

First, our official poverty measure ignores many of the main anti-poverty efforts of the past thirty years. These anti-poverty efforts include the Food Stamp Program, the Earned Income Tax Credit (EITC), Medicaid, and Housing Assistance. This omission violates the basic principle that the measure of resources available to a household should include all resources available for consumption. This omission also violates common sense. A clear example of the weakness of the official measure is that the EITC lifted 3.7 million people above the poverty line in 2005, yet it did not affect the official poverty measure.[2]

Other deficiencies of the official poverty measure include a price adjustment that overcompensates for inflation, a definition of the family that is not based on who in the household shares resources, an adjustment for family size and composition with unattractive features, and no adjustment for geographic differences in living costs. I will discuss price adjustment at length and the family definition briefly.

Secondly, the thresholds to which pre-tax money income is compared are updated annually to account for inflation using the Consumer Price Index (CPI–U). However, the CPI–U sharply overstates inflation. While described in Census publications as thresholds that are in constant dollars, i.e. ones that compensate for changes in the purchasing power of a dollar, the thresholds rise considerably faster than inflation, leading more people to be below the line. These biases accumulate over time, so over a decade or more the bias has a substantial effect on poverty rates.

The Boskin Commission, a group of eminent economists appointed by the Senate Finance Committee, issued a report in 1996 on the extent of CPI bias.[3] They con-

[2] Bruce D. Meyer, 2007, "The U.S. Earned Income Tax Credit, its Effects, and Possible Reforms, *Swedish Economic Policy Review* 14.

[3] Michael Boskin et al., 1996, "Toward a More Accurate Measure of the Cost of Living" Final Report to the Senate Finance Committee. In describing the bias, four types of biases in the CPI–U are commonly emphasized: substitution bias, outlet bias, quality bias, and new product bias. Substitution bias refers to the bias in the use of a fixed market basket when people substitute

Continued

cluded that the annual bias in the CPI–U was 1.1 percentage points per year at the time of the report, but 1.3 percentage points prior to 1996. While there are criticisms of the Boskin Commission, there is little evidence that they overstated the bias.[4] Some commentators suggest that the commission understated the bias.[5] The Commission itself argued that the estimates were on the "conservative" side and tended to understate the bias.[6]

The Bureau of Labor Statistics (BLS), which has the unenviable job of constructing the CPI, has changed its methods since 1996 to eliminate about one-third of the earlier bias in the price adjustment. The BLS has applied these new methods going backward in time to provide an improved price index (the CPI–U-RS), but historical official poverty statistics are not revised based on such improvements. Even after recent improvements, outside experts have concluded that a bias of 0.8 percentage points per year remains in the CPI–U.[7]

One can see in Figure 1 how important the inflation adjustment to the thresholds is for poverty measurement. Since 1980, after-tax poverty falls by more than an additional three percentage points when using a price index that accounts for the bias in the CPI–U.

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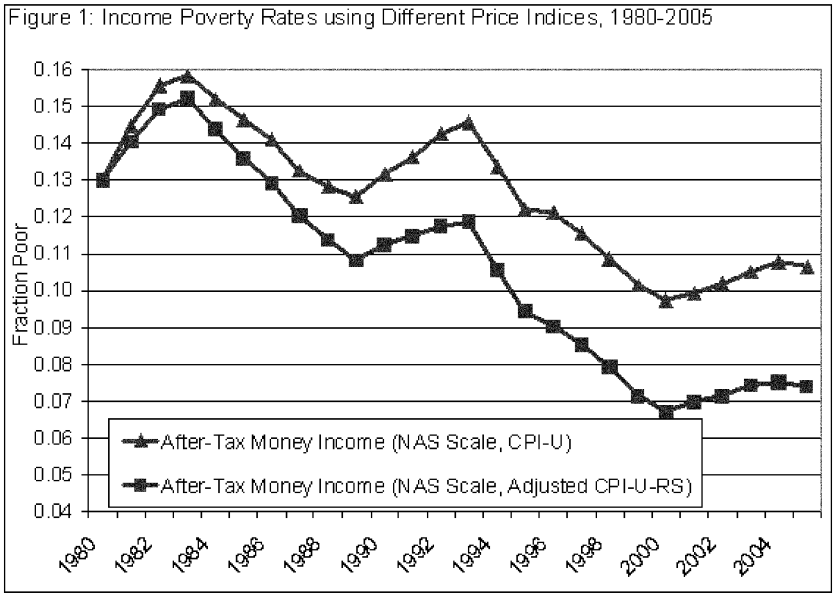
away from high relative price items. Outlet bias refers to the inadequate accounting for the movement of purchases toward low price discount or big box stores. For example, the BLS disregards the low prices in big box stores, assuming that the lower prices are offset by worse service. The shift of purchases to the likes of Home Depot, Costco and Wal-Mart shows how consumers view this choice. Quality bias refers to inadequate adjustments for the quality improvements in products over time, while new product bias refers to the omission or long delay in the incorporation of new products into the CPI. For example, the BLS did not include cellular phones in the CPI until 15 years after their introduction in the U.S.

[4] For summaries see Ernst R. Berndt, 2006, "The Boskin Commission Report After a Decade: After-life or Requiem?" *International Productivity Monitor* 12: 61–73; Robert J. Gordon, 2006, "The Boskin Commission Report: A Retrospective One Decade Later," NBER Working Paper No. 12311; David S. Johnson, Stephen B. Reed and Kenneth J. Stewart, 2006, "Price Measurement in the United States: a Decade After the Boskin Report," *Monthly Labor Review* 129:10–19.

[5] Jerry Hausman, 2003, "Sources of Bias and Solutions to Bias in the Consumer Price Index," *Journal of Economic Perspectives* 17(1):23–44.

[6] Boskin et al. (1996), Section VI; Hausman (2003); and Gordon (2006), p. 13.

[7] Berndt (2006) reports that when polled, the individual Boskin Committee members' estimates for the bias remaining in 2000 was 0.73 to 0.9 percentage points per year. Also see Gordon (2006).



Notes: Rates Anchored at 1980. In other words, the threshold in 1980 is equal to the value that yields a poverty rate equal to the official poverty rate in 1980 (13.0 percent). Income data are from the CPS-ASEC/ADF. All poverty rates are at the person level. Adjusted CPI-U-RS subtracts 0.8 percentage points from the CPI-U-RS per year.

Thirdly, an absolute poverty measure avoids one layer of subjectivity that is inherent in a relative poverty measure. The choice between an absolute poverty standard and a relative poverty standard is a value judgment. Both approaches rely on thresholds that must be chosen subjectively. But, with an absolute poverty measure, once one chooses initial thresholds, the only adjustment over time is for inflation. With a relative poverty measure, there is an additional element of arbitrariness, in that one must choose how the thresholds change in real terms each year.

Relative poverty measures are in essence inequality measures. Some will argue that we should keep poverty and inequality separate because they are separate ideas. The Census Bureau already reports many inequality measures in a separate section of the same annual report that also includes the official poverty measure. These measures include percentiles of the distribution, shares of income received by different parts of the income distribution, and summary measures including the Gini index.[8]

From the standpoint of understanding the material circumstances of the population, it is useful to know the share of people who are below an unchanging absolute standard, i.e. an absolute poverty measure. Such a measure is clear and easy to understand. A relative measure keeps adjusting the standard for overcoming poverty, making understanding what it captures much more difficult.

The most common type of relative poverty measures sets the thresholds as a given percentage of median income or consumption. Such a relative measure has some undesirable properties. The recent experience of Ireland with a relative poverty measure is instructive. Ireland grew rapidly in recent years with real growth in incomes throughout the distribution including the bottom. However, because the middle grew a bit faster than the bottom, a relative poverty measure shows an increase in poverty. Thus, we have a situation of nearly everyone being better off, but poverty

[8] U.S. Census Bureau, 2007, "Income, Poverty, and Health Insurance Coverage in the United States: 2006," *Current Population Reports*, Series P60–233, August.

nonetheless rising.[9] Another troubling example is a recession during which median income or consumption falls. A relative poverty measure might very well say that poverty was reduced in such a situation, even when absolute deprivation rose. The choice between an absolute and a relative poverty measure is a question of judgment, unlike the decision about what to include in household resources and the price adjustment, which have a firm scientific basis.

Fourth, we should from time to time set new goals for poverty reduction. We are using the same measure that was devised almost fifty years ago. Though, as previously mentioned, despite how we officially describe the measure, the thresholds have risen in real terms because of CPI-bias. Nevertheless, we hope that a true absolute poverty rate would fall over time with economic growth and the success of anti-poverty programs. Thus, periodically we may want to raise the cutoff for an absolute poverty measure and set new poverty reduction goals. If thresholds are raised explicitly every decade or two, that is more transparent than a complicated annual adjustment.

Fifth, there are better measures of resources available for consumption than after-tax post-transfer income. Substantial evidence suggests that consumption data provide a better indicator of well-being than income for families with few resources. Consumption reflects lifetime income and wealth, and thus better captures the long-term prospects of a family than one year's income.[10] Consumption is more likely to capture the effects of saving and dissaving, the ownership of durable goods such as houses and cars, and access to credit. Consumption is also more likely to reflect private and government transfers.

Compared to available income data, available consumption data in the U. S. are better suited for imputing some non-money resources, particularly those related to housing and vehicle ownership, given the detail in the surveys.[11] Furthermore, one can exclude categories of consumption that may not directly increase well-being, such as work expenses and medical out-of-pocket expenses.

In work with James X. Sullivan, I found that consumption is a better predictor of well-being than income. For example, we examine measures of material hardship or adverse family outcomes for those with very low consumption or income. These problems are more severe for those with low consumption than for those with low income.[12]

Consumption seems to be better measured than income for those with few resources. Under-reporting of transfer income is very pronounced and has increased over time. As can be seen in Figure 2, the share of AFDC/TANF dollars and Food Stamp dollars that are reported in the Current Population Survey (the official poverty source) is low and declining. While there is under-reporting of consumption, reported consumption tends to exceed reported income at the bottom of the distribution. As can be seen in Figure 3, which compares Consumer Expenditure Survey reported consumption to National Income Account consumption, a high share of food at home and rent plus utilities are reported in the survey.[13] Other types of consumption are reported less well, including food eaten away from home and clothing. One can use as a poverty measure the consumption of food at home, housing includ-

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[9] Rebecca M. Blank, 2008, "Presidential Address: How to Improve Poverty Measurement in the United States," *Journal of Policy Analysis and Management*, 27(2): 233–254.

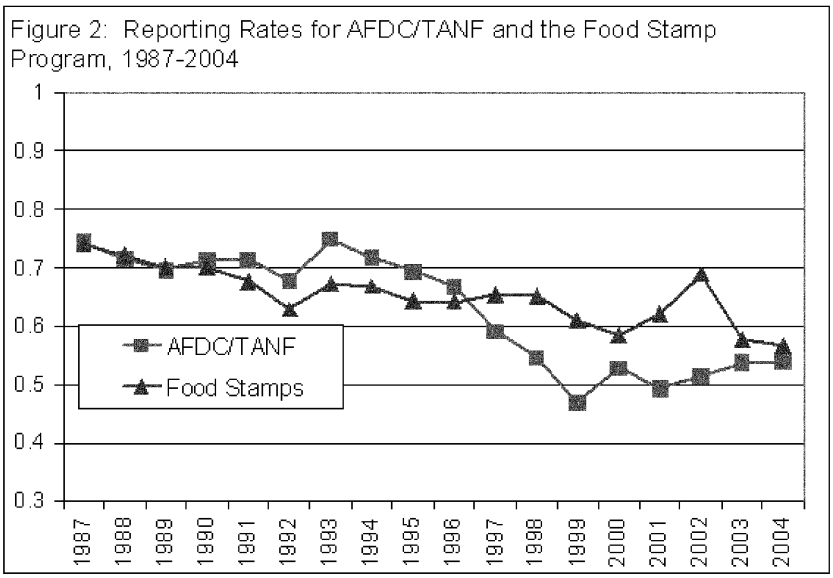
[10] David M. Cutler and Lawrence F. Katz, 1991, "Macroeconomic Performance and the Disadvantaged," *Brookings Papers on Economic Activity* 2: 1–74; James M. Poterba, 1991, "Is the Gasoline Tax Regressive?" In *Tax Policy and the Economy* 5, ed. David Bradford, 145–164, Cambridge, MA: MIT Press; Daniel T. Slesnick, 1993, "Gaining Ground: Poverty in the Postwar United States," *Journal of Political Economy* 101(1): 1–38; Bruce D. Meyer and James X. Sullivan, 2003, "Measuring the Well-Being of the Poor Using Income and Consumption," *Journal of Human Resources* 38(S): 1180–1220; Bruce D. Meyer and James X. Sullivan, 2007, "Further Results on Measuring the Well-Being of the Poor Using Income and Consumption," NBER Working Paper 13413.

[11] For example, a reasonable estimate of housing subsidies can be computed using Consumer Expenditure (CE) Survey data because the survey provides information on out of pocket rent and the characteristics of the living unit including the total number of rooms, the number of bathrooms and bedrooms, and appliances such as a washer, dryer, etc. These characteristics can be used to impute a total rental value. In addition, for homeowners the CE Survey provides self reported values of the rental equivalent of the home. The data also include information on make, model and year of cars owned, allowing one to calculate the flow of consumption services from car ownership.

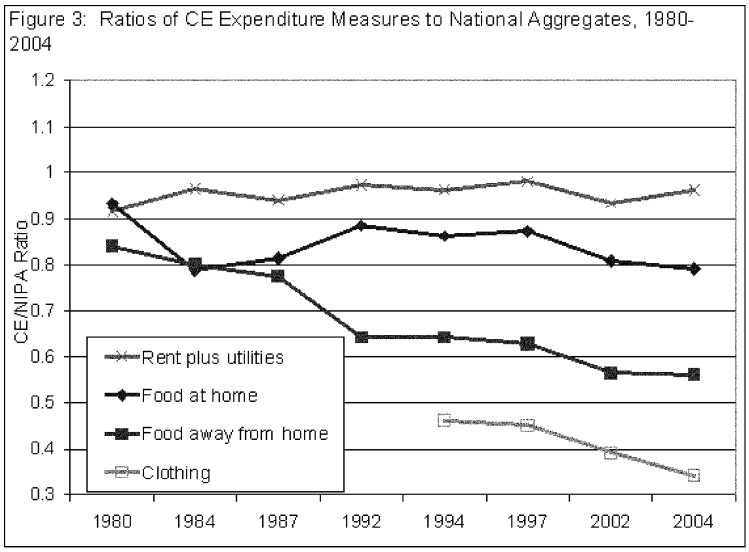
[12] Meyer and Sullivan (2003, 2007).

[13] An important caveat is that a substantial part of the difference between the Consumer Expenditure Survey and the National Income and Product Accounts totals is likely attributable to lack of comparability between the two sources. See the discussion and references in Bruce D. Meyer and James X. Sullivan, 2008, "Three Decades of Consumption and Income Poverty," Working Paper, University of Chicago.

ing utilities, and transportation. This measure approximates necessities, and is measured well in the Consumer Expenditure Survey.



Notes: Reporting rates for each year are calculated as the ratio of the total weighted dollars reported for each program in the CPS-ASEC/ADF divided by the respective administrative aggregate. See Meyer, Mok, and Sullivan (2007) for sources and details.



Notes: Ratios are calculated as the weighted dollars spent on each expenditure category in the CE Interview Survey divided by the national aggregate for the respective category. National aggregates come from National Income and Product Account (NIPA) Table 2.5.5: Personal Consumption Expenditures by Type of Expenditure.

It should be evident from these figures that one needs to pay attention to the quality of data used in any poverty measure. While income data are easier to report for many people than consumption data, the poor often have many irregular sources of income that make reporting difficult. Income is also a more sensitive subject than consumption. Overall, a larger (dollar weighted) share of consumption questions are answered in the Consumer Expenditure Survey than income questions in the Current Population Survey ASEC. Lastly, the unit that shares resources is identified in the Consumer Expenditure Survey because it is asked directly. In the Current Population Survey there are no direct questions that allow you to determine if the resources of a cohabitor, for example, should be included. I should emphasize that current consumption datasets do not have the geographic coverage and sample size to measure poverty at the state and local level. Thus, consumption data cannot be used for poverty calculations at fine geographic detail without expanding data collection.

Sixth, what it means to be poor, when poverty is defined by the current official standard, has changed over time. This situation is true despite the official poverty rate in 1970 and 2005 being exactly the same, 12.6 percent.[14] President Reagan famously quipped that we fought a War on Poverty and poverty won. The former Chairman of this Committee said a dozen years ago that "Government has spent $5.3 trillion on welfare since the war on poverty began, the most expensive war in the history of this country, and the Census Bureau tells us we have lost the war."[15] There are plenty of statistics that disagree with these statements, but our official poverty measure is not one of them.

The official poor of today are much better off than the poor of thirty years ago. But, this change is largely due to poverty thresholds that have risen in real terms over time, thus including additional, better-off families. In 1972, 54 percent of the officially poor owned a car, compared to 70 percent today.[16] In 1972, 6 percent of the poor had central air conditioning, while now 38 percent do. For single mothers we have seen rates of leaky roofs and deficient plumbing fall sharply.[17] Since 1980, the fraction of the poor having a dishwasher has risen from 18 percent to 31 percent. Similar increases have occurred in the ownership of washers, dryers and other appliances as can be seen in Table 1.

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[14] U.S. Census Bureau (2007) p. 44.

[15] House Ways and Means Committee Chairman Bill Archer's opening comments in the debate on the bill that became the 1996 welfare reform law (Congressional Record, 104th Cong., 1st sess., March 21, 1995).

[16] Author's tabulations using Consumer Expenditure Survey data for 1972/1973 and 2000–2005.

[17] Bruce D. Meyer and James X. Sullivan, Forthcoming, "Changes in the Consumption, Income, and Well-Being of Single Mother Headed Families," *American Economic Review*.

Table 1: Homeownership, Car Ownership, and Characteristics of the Living Unit for Individuals in Poverty

	1972-1973	1980-1989	1990-1999	2000-2005
	(1)	(2)	(3)	(4)
Homeownership	0.364	0.398	0.363	0.385
Car ownership	0.535	0.627	0.667	0.695
Number of rooms	4.801	5.210	5.059	5.080
Number of bedrooms		2.532	2.508	2.568
Number of bathrooms		1.464	1.216	1.315
Appliances				
Stove		0.976	0.970	0.962
Microwave		0.271	0.642	0.847
Refrigerator		0.985	0.983	0.984
Freezer		0.295	0.254	0.232
Disposal		0.157	0.219	0.267
Dishwasher		0.184	0.229	0.308
Window air conditioning	0.146	0.220	0.253	0.283
Central air conditioning	0.055	0.154	0.257	0.383
Washer		0.595	0.595	0.639
Dryer		0.390	0.456	0.546
Television		0.614	0.920	0.957
Computer		0.041	0.136	0.380
Stereo		0.290	0.490	0.625
VCR		0.254	0.575	0.762

Notes: Data are from the CE Survey, 1972-2005. Sample includes all individuals living in poor families using the official poverty definition. Incomplete income reporters are excluded. Column (2) does not include data from 1982-1984 due lack of data availability.

Looking at a wide range of indicators of children's living conditions including housing conditions, air conditioning, access to a telephone and doctor visits over a slightly earlier period, Jencks, Mayer and Swingle conclude that:

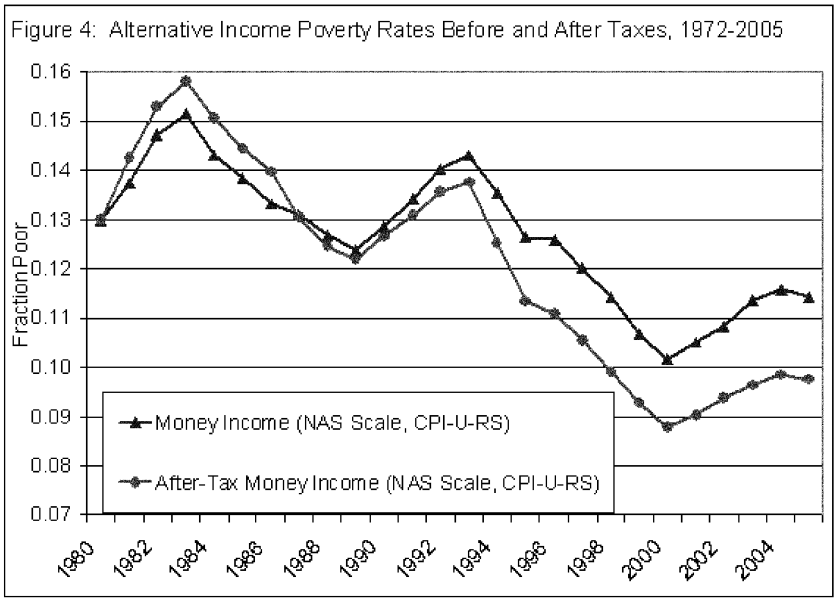
Almost all our measures suggest that low-income children's living conditions improved fairly steadily between 1969 and 1999 . . . [O]fficial child poverty statistics do not currently provide reliable information about trends in material hardship among American children.[18]

There still are millions of people suffering material deprivation including millions of children whose long-term prospects are affected. But, if we are going to improve on our current policies to address poverty, we may want to recognize that the nature of poverty has changed over time. Forty years ago, one of the main food policy issues was making sure large numbers of people received sufficient calories. Now, the main health issue is making sure large numbers of people receive the right calories and not too much of the wrong kind.

[18] Christopher Jencks, Susan Mayer, and Joseph Swingle, 2004, "Can we Fix the Federal Poverty Measure So it Provides Reliable Information About Changes in Children's Living Conditions?" Working Paper. Harvard University.

Seventh and last, in understanding poverty and policy, it matters whether or not you use a better measure of poverty. In pointing out how poverty measures affect our understanding, I will focus on changes in poverty over time. We can discuss how including or excluding various things from resources will raise or lower the current rate. But, as others have emphasized, when one adds or subtracts something from resources, it may call for a similar adjustment to the thresholds. The thresholds are fundamentally subjective, one might even say arbitrary. What is more informative is how the exclusion or inclusion of something from resources affects changes over time in poverty rates. To facilitate such comparisons, I would urge any change to our current official measure to adjust thresholds so that the poverty rate is the same as the current official rate in some base year, probably the year of adoption. We can think of the differences reported here as looking at what would have happened if we adopted a different measure in 1980 and set thresholds to make the poverty rate the same in that initial year. This approach to assessing alternative poverty measures was also adopted by the Joint Economic Committee Democrats in a recent report.[19]

The effects of tax policy on poverty are evident in Figure 4, which compares the pre-tax and post-tax poverty rate over the last 30 years. One can see that the 1981 and 1982 tax acts were not particularly favorable to the poor. One can see that the 1986 tax act and the 1990 and 1993 budget agreements reduced poverty. It is also relatively easy to see the effects of the EITC on poverty in this figure. EITC changes were the main tax provisions affecting the poor in 1986, and the later expansions were the bulk of the tax changes in the 1990 and 1993 budget agreements (each of which was phased in over several years).



Notes: Data are from the CPS-ASEC/ADF. Rates Anchored at 1980. In other words, the threshold in 1980 is equal to the value that yields a poverty rate equal to the official poverty rate in 1980 (13.0 percent). The thresholds in 1980 are then adjusted over time using the CPI-U-RS. All poverty rates are at the person level. After-tax Money Income includes taxes and credits (calculated using the NBER's TAXSIM program).

The extent of progress against poverty for various population groups is different when one measures poverty with income compared to when one uses a more appropriate consumption measure. Looking at Table 2, one can see that using a poverty measure that directly reflects what households are able to consume shows that poverty rates have declined sharply since 1980 for single parent families and families

[19] Joint Economic Committee Democrats, 2004, "Reduction in Poverty Significantly Greater in the 1990s than Official Estimates Suggest," Economic Policy Brief, August.

with a head that is 65 or older. On the other hand, progress against poverty has been less successful for married couples with children. This type of information is essential in understanding the effects of anti-poverty policies and designing better policies for the poor.

Table 2: Consumption and Income Poverty by Demographic Group, 1980-2005

Year	Official Income Poverty (1)	After-Tax Income + Noncash Benefits (2)	Consumption (3)
	Single Parent Families		
1980	0.438	0.390	0.378
1990	0.438	0.398	0.336
2000	0.324	0.261	0.232
2005	0.344	0.276	0.211
Change: 1980-2005	-0.094	-0.114	-0.167
	Married Parent Families		
1980	0.087	0.104	0.106
1990	0.094	0.109	0.119
2000	0.072	0.065	0.101
2005	0.079	0.061	0.086
Change: 1980-2005	-0.008	-0.044	-0.019
	Head 65 and Over		
1980	0.157	0.124	0.147
1990	0.121	0.090	0.090
2000	0.101	0.072	0.052
2005	0.104	0.076	0.056
Change: 1980-2005	-0.053	-0.049	-0.091

Notes: All poverty rates are at the person level. Consumption data are from the CE Survey and income data are from the CPS-ASEC/ADF. For each series, except official income poverty, the threshold is anchored in 1980 for the full sample, rather than for each demographic group, and is adjusted for differences in family size using the NAS recommend equivalence scale, and for inflation using the CPI-U-RS. After-tax Income + Noncash Benefits includes all money income, taxes and credits, food stamps, and CPS-imputed measures of housing and school lunch subsidies, the fungible value of Medicaid and Medicare, and the net return on home equity.

I am hopeful that we will officially report multiple poverty measures not tied to program eligibility, including consumption measures and income measures that incorporate in-kind transfers and taxes. Absolute poverty measures are an important part of this package, with thresholds periodically, but infrequently revised. Such poverty measures would insure that better information is widely available to assess the operation of the economy and design policies for the poor.

Thank you.

Chairman MCDERMOTT. Thank you for your testimony and thank all of you for coming and sharing your expertise with us.

I have a question and I think it is very topical, and that is the whole question of how does something like gasoline prices or fuel oil prices or the price of corn, because corn is now being used for ethanol, how does that get figured into this kind of a—we have had this sort of double shock right now where food prices have gone up and gasoline prices have gone up—how does that impact or how would that be figured into this standard? I open it to the panel. Dr. Blank.

Dr. BLANK. The National Academy measure recommends that the poverty threshold be defined based on food, shelter, and clothing, plus a little more—utilities are also in there.

So, an increase in food prices, a change in housing prices will affect this. So, as fuel affects utility prices, as food prices go up, this is going to potentially affect your threshold if you are changing it over time. It also of course affects the resources that families have available to them.

If more families end up going on to food stamps or if more families end up qualifying for Medicaid because their income has fallen in other ways, that also is going to be taken into account.

Chairman MCDERMOTT. Is the same true of the housing bubble bursting and now prices in housing going down across the country?

Dr. BLANK. Yes, because housing has become less expensive for lower income families.

Dr. LEVITAN. How

Chairman MCDERMOTT. Go ahead.

Dr. LEVITAN. There is another way that the cost of transportation would figure into this, because the NAS proposed that work-related expenses, among them the cost of getting back and forth from work, should be deducted from family resources. So, if you are putting $60 of fuel in your tank every couple of days, it means you have less money for the other things that your family needs.

Chairman MCDERMOTT. The regional differences. Tell me how that works. Is it really cheaper to live some places than others? Are you as poor if you have an X number of dollars in one place as you do in another place?

Dr. BLANK. So, I think it is a similar question to, "Is it more or less expensive over time as inflation occurs to live in 1 year versus another year?" Similarly there are some areas of the country in which prices for housing, for fuel are simply quite a bit higher.

Mr. Levitan knows this, as anyone who lives in New York City does. If you compare prices in New York City to prices in some parts of rural America, you simply have very, very different situations. Taking account of that when determining whether or not a family is poor is clearly the right way to develop your National economic measure.

Chairman MCDERMOTT. The present measure has no reflection of that whatsoever.

Dr. BLANK. None at all.

Chairman MCDERMOTT. So, if you are living in rural Iowa or you are living in New York or Los Angeles or San Francisco or Seattle

Dr. BLANK. It is exactly the same poverty line.

Chairman MCDERMOTT. Let me ask the other question that I am sort of impressed that there is this large a crowd here for something as dry or seemingly unimportant as a Federal poverty line.

What difference does it make if we do or do not change it? Why should we change it? You developed something in 1996. Has it stood the test of time of 10 years since 1996?

Dr. DANZIGER. The poverty measure is a very important national social indicator. We get the unemployment rate every month and the GDP growth rate every quarter. Those indicators obviously get a lot more attention, but once a year we get the poverty measure and it is the focus of interest each time the Census Report is released.

In my testimony, I have a quote from 35 years ago from James Tobin about the importance of the poverty measure in telling us about how our least advantaged citizens are faring. That is why it is important to continue to focus attention on poverty.

For the last 30 years, it has been obvious that has what happened to the average family has not happened the same at the bottom and the top. It was the case from the end of World War II to the early 1970s that "a rising tide lifts all boats." If you heard that GDP was growing rapidly, that unemployment rates were low, you could assume that low wage workers were gaining and high wage workers were gaining.

Since the 1970s, however, there is a very strong disconnect—average economic measures, such as the unemployment rate, economic growth, GDP per capita, no longer do a good job informing us about how those at the bottom are faring. That is why the poverty measure is so important and continues to be an important social indicator.

Dr. LEVITAN. I want to say something about the practicalities of this from the New York experience. This project began when a group of people were asked, 'come up with some new ideas about fighting poverty.' The feedback that the Mayor got from them is, 'we are not sure that we know what we are doing, because we are working with an apparatus, with statistical methods that are ignorant, and you have got to come back and give us some better ideas and better way of looking at poverty.'

So as Dr. Blank pointed out, the issue really isn't, is it this percent, is it that percent, it is looking inside and seeing things that you didn't see before, that you couldn't see before using the old measure. That is why I made a point of pointing out what happens to children living in single-parent families.

When you sort of unpack this thing and look, you see poverty in a different way. I think it is a more intelligent way, and it is a way that allows people to then think about policy.

Mr. NELSON. I would like to just add my two cents.

I think the question of why so many folks are interested in this issue probably doesn't turn on the technical arguments about what would be a more scientifically defensible standard. It is because there are a lot of people in this room and millions in the country who would like to see fewer American families unable to raise their children successfully and would like to reduce the poverty rate.

The issue is that the kind of sustained political will and public interest in doing that important thing for the country requires that

we have some shared view of who is poor in this country and what that means.

Even more important, and I will give you a specific example, is some way of tracking our progress against that national objective of reducing poverty.

The Casey Foundation has helped States look at the issue of the value of a State EITC. If you talk to a Governor and a legislator about making the difficult decision to introduce an expanded earned income tax credit at the State level, and he or she asks you a question, 'and if we do that and it is as effective as you think it is, will it reduce my State's child poverty rate,' and the answer to that question, 'not the official child poverty rate in that State,' and you create a real impediment to the will and energy and sense of public return on doing the right thing.

So I think that that is why people are interested in getting this measure right.

Chairman MCDERMOTT. Thank you. Mr. Weller will inquire.

Mr. WELLER. Thank you Mr. Chairman. I am interested in discussion, and I know we are limited in time for each of us with our turns. Dr. Danziger, as I understand it, in the Chairman's definition under his legislation, if a family of a certain size has less disposable income in a year than two-thirds of what the median similarly sized family in their area spends in a year, then they fall into poverty. Is that correct?

Dr. DANZIGER. That is correct. In 1965, Mollie Orshansky, working at the Social Security Administration, was a researcher who had available data only on food consumption. That's what she had available. The official poverty line was developed very much like what the NAS proposes based on food only. She said, well the average family spends this much on food and we expect that the poor will spend a third of their income on food.

So, the NAS measure says, we are going to look at food, clothing, shelter, utilities, and a little more. The budget is not going to be constrained to be only food. It is based on a broader consumption basket of necessities.

The specific point you pick fort he poverty line, the NAS was clear to point out, cannot be scientifically determined. The NAS panel suggested picking a reference point in the consumption distribution based on the median family's spending on necessities and adding a little more, call that 15 percent. It also said that you could use a multiplier of 20 percent.

The draft act specifies a specific number. It falls within the range that the NAS suggested. What the panel and what I would argue is that it is important to establish that we are going to have a modern poverty threshold, and that over time we are going to allow it to change with changes in median spending on food, clothing, shelter, and utilities.

The NAS panel actually wanted to avoid claims that it was "moving the goal posts." The panel proposed that for 1992 the NAS threshold be set so that the NAS measure and the official measure would achieve the same poverty rate. Then as time passed, the official measure would change only by the change in consumer prices and the NAS measure would change with changes in spending on consumption on necessities.

Mr. WELLER. Dr. Meyer would you care to comment on this mixing of income and spending?

Dr. MEYER. Well let me also say one thing about the question that was just answered. One thing that is very different about this proposal is that it would set the standard relative to consumption of an average person, rather than an absolute standard. It would be moving the goal posts every year so that even if people at the bottom have their income going up, even if transfers to them are going up, poverty could still be going up since the proposed definition is the income of people at the bottom relative to consumption of those at the middle.

Now the proposed measure does mix consumption and income. It uses consumption to set the standard and then compares income to it. I think we would be better off if we just looked at consumption as our measure of resources rather than income.

Two examples are probably useful. In the case of single mothers, you find that they tend to get their resources from many different sources: from government programs, from transfers, from family and friends, and from many different jobs. Income also tends to be underreported sharply for single mothers.

If you look in our standard surveys, including the one that we use to calculate the official poverty measure, only about half of food stamps and TANF benefits are reported. Therefore, if you look at consumption, you can see that the living conditions of single mothers have improved more sharply than income suggests.

Another good example is aged households. Aged households have been much more likely over time to have a car and own a home, and the flow of resources from car ownership, and a home, do not count in income. Similarly, if you are drawing down savings, as the aged population is increasingly doing to finance their retirement, that again does not count as income. It should count as part of resources that reduce poverty, because it is a resource available for consumption.

Mr. WELLER. Dr. Levitan, you did this work on behalf of Mayor Bloomberg, and Mayor Bloomberg like Members of Congress, we have limited resources and we want to allocate those resources as effectively as possible, because we want to help people that need help. In your work looking at the definition of poverty within New York City, your formula came up with a higher level of poverty.

From an allocation of resources, did you look at the impact that would have on the New York City budget? What was the budgetary impact if that were to be implemented to determine distribution of benefits and assistance?

Dr. LEVITAN. Well we have taken the same attitude toward our work that is embodied in the legislation from Mr. McDermott, which is that this is a social indicator, has no direct bearing on program eligibility or funding formulas, which are totally outside the purview of the government of the City of New York.

So, this is a tool that we can use to better understand what we are doing and what is working and what is not working. If we see that the poverty rate is different under our measure when we look at, say, the foreign born, that may tell us something about where we need to target our outreach as we try to encourage more people to enroll in the food stamp program. Happily, if we get more people

in the food stamp program, our poverty measure might actually capture it.

So, this is the kind of thing that we want to do with this measure. This is not going to have the kind of budgetary impact that you are suggesting.

Mr. WELLER. Does anyone else want to comment on that? I realize the red light is one for me, Mr. Chairman.

Dr. DANZIGER. If I could. The NAS considered this issue. Congress seems to think that the current poverty measure isn't the one to be used because many public programs define eligibility by using a multiplier of the poverty line. For example, Medicaid use 180 or 185 percent of the poverty line; food stamps uses 130 percent of the poverty line.

So, there does not have to be a direct connection between a revised and program eligibility requirements.

Mr. WELLER. However, you are using examples of where there is a connection.

Dr. DANZIGER. There is not a connection to the official line in the sense that Congress decided to use a multiple of the current poverty line. Congress is not using 100 percent of the poverty line to determine eligibility for these programs.

So, the hypothetical would be, let us assume you did nothing but change the official measure from the current measure to 30 percent above the current measure. You then might decide that since the new official measure is the Orshansky line plus 30 percent, the new food stamp eligibility limit should be 100 percent of the new poverty line, not 130 percent.

The poverty definition itself does not have any direct implications for program eligibility and need not.

Dr. BLANK. Can I say something very quickly?

Mr. WELLER. Sure.

Dr. BLANK. Very few people think we ought to stop publishing the old official poverty line as defined by OMB, and every program that currently ties to that line can continue to tie to that line.

There is absolutely nothing, if you develop this new measure, that would in any way interfere with ongoing use of the OMB-defined poverty line. Programs over time can decide whether they think that is fine or whether they want to make some changes, which is what they do anyway when they look at eligibility from year to year.

Mr. WELLER. Well I know, Mr. Chairman, when I proposed my legislation last year with the desire to include accurate recognition of benefits that people received to help them with their income in determining poverty, we were suggesting that we have a model developed that would compare the existing poverty rate and then implement this even though it would not be immediately the official poverty rate, but it would give us an idea. I do believe that, if we change it, it is going to have a budgetary impact, and we need to think that through as well.

Chairman MCDERMOTT. The panel is saying not necessarily a budgetary impact. What you are about is it gives you a better view of who it is that falls into these categories, and maybe that is

Mr. WELLER. However, income eligibility for Medicaid and other programs is determined on where you fall within comparison to the

poverty rate. It is going to have an impact on spending on that particular program.

Dr. BLANK. Currently those programs are tied to the OMB directed line, which will continue to be calculated in exactly the way it is, so that there is no disruption or change in any of those program eligibility standards, unless over time a program decides to do so. It is not obvious that they will. This is a more complicated statistic, they may decide they want to stick with this much simpler food times three updated by the CPI, I mean that

Mr. WELLER. Or Congress may decide to make that change. Thank you.

Chairman MCDERMOTT. Mr. Stark will inquire.

Mr. STARK. I was fascinated by this, Mr. Chairman. Thank you.

I often think that it is difficult for those of us who live so comfortably to understand what poverty is. It is kind of remote from our observation. I was a very young puppy when I was poor, and I always defined poverty as the fact that I never slept alone until I was married. That was sort of what defined it.

[Laughter.]

Mr. STARK. Then I have heard Dr. Meyer talk about this ownership stuff, and where I live, in southern Maryland, I would like to show you, Dr. Meyer, there are some homes down in southern Maryland, I could show you a few homes where these folks, if you look in the yard, I could count perhaps a dozen refrigerators, eight or ten air conditioners, a whole bunch of television sets, but I think I would give you a nickel for any of them that worked.

It seems to me that car ownership, aside from the cost of gasoline today can actually be a drag, and where it is a living unit made up of more people I suspect that you get more people per car or per air conditioning than you do otherwise.

The one question, and I hate to have the Chair get to the left of me on this, but in other countries, and I would ask the panel this, and I understand there are some problems with this, but they do use relative poverty measures. A percentage of median income, I believe. Canada does that, U.K. does that. Canada it is what, 60 percent of the median income determines poverty, anybody, is that where we are today in

Dr. BLANK. The OECD and the EU use that. Canada, actually, has another way in which it calculates what is called the low income lines.

Mr. STARK. Based on median income or——

Dr. BLANK. It is not a straightforward

Mr. STARK. What is wrong with using, aside from the fact that now it would drop, it is kind of a moving target, but what is wrong with using something like that as a measure of poverty? It would be pretty easy to calculate the median income, I think. Why couldn't we? Anybody?

Dr. LEVITAN. I think there are two issues. One is I think it confounds two conceptually different things, poverty and inequality. I think inequality is an enormously important issue, but that is measuring equality. Poverty is something

Mr. STARK. Is poverty kind of inequality?

Dr. LEVITAN. Poverty is related to inequality, but poverty relates to a state of material deprivation, which is related but not

identical to inequality, which is your distance from the median, right?

The other problem I would have with this approach is that you sometimes would get some very bizarre results. So, imagine we have a recession. Median income falls, which means the poverty threshold falls.

Mr. STARK. At a time

Dr. LEVITAN. At a time when more families are in distress. So, you could have a situation where, in a recession the poverty rate is falling, and that is a very odd result for a social indicator that is trying to measure families' deprivation.

Mr. STARK. So, the alternative is to establish an amount of money that you need to exist?

Dr. LEVITAN. The beauty of the NAS methodology is we are looking at changing the measure over time by median expenditures on necessities, and we are doing it slowly. We are talking about a 3 year moving average so we don't get these sorts of wild gyrations of where the poverty threshold is.

Mr. STARK. Indulge me, somebody else. These "necessities" I think you would find some difference both on the panel and up here and at the witness table as to what is a necessity. I can think of people who would say poor people don't deserve a car, it ain't necessary. Walk, ride a bike, take the bus. Where do we make this determination?

Dr. BLANK. So, the necessities that are defined within the National Academy line are food, shelter, clothing, and utilities. There is not a car

Mr. STARK. Not healthcare. Not childcare, not work related care.

Dr. BLANK. Some of those things are taken account of when you look at people's resources. On the resource side, what the National Academy recommends, and which I strongly agree with, is that you want to look at after tax income, taking account of in-kind benefits, and then also subtracting off what we think are necessary expenditures for work because we expect Americans to work, and out of pocket medical expenses because we think that you aren't better off if you are sick and have to pay out of pocket expenses.

Mr. STARK. What do you do with child rearing? A single parent, is that a job or is that just a

Dr. BLANK. That is part of work expenses. Work expenses is potentially transportation, childcare

Mr. STARK. What if you don't work? What if you are a single parent with three kids and that is your full time job, how do you count that?

Dr. BLANK. In that case, then child care is not subtracted off income because it is not a work expense.

Mr. STARK. So that parent gets nothing for being the child care provider, trainer

Dr. BLANK. If you are looking at the economic situation of the family in terms of the resources they have available for disposable income, no, your economic status is not affected if you are not working by whether or not you care for children or not.

Mr. STARK. Thank you Mr. Chairman.

Chairman MCDERMOTT. Mr. Davis will inquire.

Mr. DAVIS. Thank you Mr. Chairman, and this is a fascinating topic, and I hope that the panel doesn't conclude that the absence of Members here means people are not deeply interested in this issue. I hope it doesn't mean that because I think it is an enormously important subject.

Let me throw out a question and then make an observation after that. Using the current indices, the current ways we define poverty, what percentage of people, roughly, in poverty today have been in that condition for less than 12 months?

Dr. BLANK. We don't have, we have no official measures of that. Of course we have only annual data on the ways basis in which we find official poverty.

There is some other data you can look at that has less than annual information in it, but one reason to go to an annual poverty line is that you probably don't want to look at 1 month, you probably

Mr. DAVIS. That is not the point I was making.

Honestly I am just trying to get a sense of how porous the line is and how many people move from middle class, lower middle class to poverty back to lower middle class back to poverty depending on fluctuations in their lives. I have seen data that indicates that as many as 27, 28 percent of people below the line today have been in that place for a fairly short period of time. I don't swear by that data but I have seen it in some contexts.

Dr. DANZIGER. I can give you a rough, ball park estimate from memory.

There is a data set called the Panel Study of Income Dynamics, which has followed families from 1968 to the present. You get into an interpretation of whether the glass is half full or half empty.

If you are poor as a young person, say, let's look at young people 25 when they have left the parental home and they are just starting, and you find out that the person is poor, then the likelihood that they will be poor again over the next 40 years is something like 80 percent. While a lot of people move into and out of poverty, the people who start at the bottom have a much higher likelihood of being poor again than others who start out from a higher economic position.

If you start with an affluent person at that age, their probability of going into poverty is going to be something like 15 percent over the next 40 years.

Mr. DAVIS. Well, two points. From a public policy standpoint, I think you have two fascinating things I don't think exist in contradiction, but they do strain different sides of our politics. Your observation is exactly right. There are a lot of people who live in a fixed condition of poverty, and there is no question that the best predictor for being poor is that you are poor today.

The other best predictor for being poor is that you don't have a high school education. The next best predictor is that you are a drop out. The next best predictor is that you don't have a college education, and so on and so on.

That makes an obvious point. I don't think you can have this conversation without having a conversation about educational inequality. Two years ago, my State had a 41 percent high school drop out rate. We improved to a 33 percent high school drop out

rate last year and some people in my State have the nerve to celebrate that. The numbers are staggering. I was born in Montgomery, which is the State capital, a primarily urban/suburban city. It had a 50 percent drop out rate 3 years ago.

The second observation that I would make, I think we have to get a handle on how debt affects this. While I don't argue this should be the way we measure poverty, if we measure economic stress, one very important question is the degree to which debt consumes your disposable income. If debt is consuming your disposable income, you may be living in a half million dollar house, but if you have two kids in the University of Alabama, then chances are if you are living in a million dollar house they don't qualify for financial aide.

Again, I think what we are going to have to figure out as public policy makers is maybe how we move from the box of talking so much about poverty and moving to a broader conversation about economic anxiety and understand that one size doesn't fit all.

In my final observation, limited time that I have, there are significant regional differences. The question of persistent poverty, people living in whole communities that face loss of jobs, poor educational systems, that does appear to be more concentrated in the South. There are roughly 243 counties in the American South that are classified as being in conditions of persistent poverty, which is a combination of unemployment rate, poverty rate, and that is a significant problem.

One new thing that I think that we have to do as a Congress is that we have to figure out how we can better target resources toward places like what we call the black belt in Alabama, the delta in Mississippi, the Appalachian regions in West Virginia, because when you have whole communities where foreclosure is a random regular event, where poverty is the norm, where failing schools are a norm, that has a cultural impact and depresses people's expectations. It limits housing values, it means industry doesn't come in, and becomes a cycle that repeats itself.

So, I think we have to move away from our favorite culture versus nature arguments and we have to move to broader conversations about identifying economic distress and economically distressed communities.

Thank you Mr. Chairman.

Chairman MCDERMOTT. Mr. Weller will inquire.

Mr. WELLER. Thank you Mr. Chairman.

Under your proposal I just want to get an understanding of what the impact would be on the poverty rate, and Dr. Blank I believe that you are a supporter of what the Chairman is advocating with his proposal. So, what is the current poverty rate today?

Dr. BLANK. The current poverty rate is 12.5.

Mr. WELLER. What would it be under the Chairman's proposal, today?

Dr. BLANK. One would have to do the exact calculation. Sheldon, you in your testimony have some numbers from experimental tabulations that have been run, although these are not exactly the same as the proposal. The part of the proposal is to go to census and tell census to use their professional judgment to make a series of decisions about exactly how certain things get done. So,

Mr. WELLER. Would any of the panelists be able to provide an estimate on what the poverty level would be?

Dr. DANZIGER. I have a footnote in my written testimony referring to a 2001 census report which showed an official poverty rate of 11.8 percent and an NAS style measure of 12 percent. However, that report was based on analysis done 7 or 8 years ago, so I don't know what it would be like today. I am sure that the Census Bureau experts who have been working on this topic for many years could provide updated data comparing the official measure and the NAS measure.

Mr. WELLER. Does anybody else on the panel have a response?

Dr. LEVITAN. Well not a precise one, but let me give you something that I think would give you a ballpark. Okay, so for 2006, the poverty threshold, the official poverty threshold for a family of two adults and two children was $20,444. One of the NAS style thresholds that has been used that is very close to what is in the proposed legislation, the national threshold, is 21,818. It is not really a big difference.

So, you have a small upward adjustment in the threshold, but you are also including a lot more on the resource side. So, I don't think that on the national level you would get a very different poverty rate, which is consistent with the footnote that Dr. Danziger just dug up for you.

Mr. WELLER. Dr. Meyer, would you like to comment?

Dr. MEYER. I think the bigger concern with an NAS type measure is not how you initially set it but the fact that it is likely to grow over time. Especially that the poverty rate may very well grow over time even when incomes are growing and transfers to those at the bottom of the distribution are growing, because it is a relative measure.

Now Dr. Levitan criticized a poverty measure that calculated the number of people who are below some percentage of the median because that measure could very well go down in a recession. However, this NAS type measure has that same bad property, it is just a little harder to see. If you had a recession and median consumption falls, it may very well be that poverty measured NAS style falls also.

Mr. WELLER. So, if the current rate is about 12.5 percent as Dr. Blank stated, what would the rate be today? Do you have a projection, the way it would be under the Chairman's formula?

Dr. MEYER. I have not done those calculations.

Mr. WELLER. I am told there is, under that 12.5 percent is about 37 million people. Do we have a projection how many individuals, how many Americans would, under the Chairman's proposal be designated or determined to be living in poverty?

Dr. BLANK. I think the answer to that is the same as the answer to the other question.

The point about the National Academy measure is that there is not a simple projection as to what happens to the poverty count. There are some calculations that would reduce poverty, such as adding in-kind income and taking account of after tax and the EITC. There are, however, some other calculations that would push poverty up. When you subtract off out of pocket medical expenses

or you subtract off work expenses, that has the opposite effect and those are off setting.

Mr. WELLER. My concern is we have people testifying in favor of the proposal, and you have got some good ideas in the proposal Mr. Chairman, but no one seems to be able to tell us what the impact will be on the number of individuals, number of families, is it an increase, would there be more, would there be less, and to me that is very useful information for this Subcommittee to have.

Mr. NELSON. I think, Congressman, that it is a fair question, but I don't think it goes to the heart of the utility about an agreement about a measure that over time people think is more credible. I think you and your prior legislation have made arguments which I would like to associate myself with.

If we are going to communicate to the public going forward what the benefits and impact of public policy programs for low income families are, we have got to measure those in the calculation of their income and their resources. That is a critical step forward and we are now unable to do that.

I also think that there is an equally compelling argument that our definition of what actually constitutes being poor needs to correspond more closely to what the common-sense public understanding of what being poor means, and I think the NAS threshold definition comes a whole lot closer than a minimum food budget times three to responding to that.

The real issue is not what happens to the numbers tomorrow, the issue is whether it gives us the tool, which I would like to supplement with Congressman Davis's interest in knowing more about the assets of low income families and the persistence of poverty among low income families, if we had those three regularly updated, accurate data, we would create a context in which Democrats and Republicans and Independents, who are all committed to reducing poverty have more common ground to hold themselves accountable for policy.

Mr. WELLER. Mr. Chairman, I think these are fair questions to ask because we have limited resources. How can we best allocate them to help those who need help.

So, I would urge some modeling being done because I have seen figures as much as a 15 million increase in the number of people who would be in poverty under your formula. Of course I would like to see some official ones, but I think it would be very useful to have that information. So, I would encourage you Mr. Chairman.

I would also ask, Mr. Chairman, I realize there are Members coming and going and we have another Ways and Means meeting going on at the same time which is competing with this hearing, but I would ask Mr. Chairman, if Members would have the opportunity to submit questions to our witnesses for the record.

Chairman MCDERMOTT. Absolutely. Everybody has five additional days to submit questions and put anything in the record

Mr. DAVIS. Mr. Chairman, would you allow each of us just a couple of minutes, because we have a few minutes before that Ways and Means hearing begins? Okay. Mr. Stark, did you want to go first? I don't want to

Mr. STARK. I was going to go in the second round.

Chairman MCDERMOTT. Mr. Stark will inquire.

Mr. STARK. Well I wonder if the panel can help me on this. It seems to me that, and we have three MIT graduates here, two Ph.D.s and one bachelors degree sans laude——

[Laughter.]

Mr. STARK. Good in Latin, but that's——

There is something about the inefficiencies of being poor. You, Mr. Davis touched on it. If you are suddenly unemployed, you may borrow money at the payroll check casher or if you have got a credit card, you may there. So, you can live off savings for a little while but you just dig a deeper hole.

If you are poor and you live around Capitol Hill, you get to rip off role ins down here but you will pay a whole hell of a lot more I suspect for milk and sliced ham than if you can get yourself to Sam's Club or Wal-mart, which, if you are poor, is more difficult. If you are poor, it is probably more difficult to buy things in quantity, which would save you some money. You buy a whole turkey.

I only did this because I tried to live on food stamps once when my wife had to do it as a thesis thing, and if we hadn't taken wine off the list, I might have starved to death, but it is hard. $25 a week. That chicken got the cleaner on a Fourth of July picnic.

Do these numbers take into effect that idea that the expenses of either acquiring assets are more expensive for poor people, there is an inefficiency built in to trying to exist in a market if you are poor. Is that calculated by anybody?

Dr. BLANK. So, the threshold, the poverty line that is calculated with this National Academy measure is calculated somewhere below the median in terms of spending on food, shelter, clothing, utilities, and to the extent that that group of people faces consistently a higher set of prices, that will show up in their expenditures. That is I think the short answer.

Mr. STARK. So, there is some compensation in the formula that takes this into effect, that is what you are telling me?

Dr. BLANK. To the extent that shows up in different expenditures, yes. That also would show up of course with price differences across regions potentially and it might show up somewhat in that price adjustment.

Mr. STARK. Thank you.

Mr. DAVIS. Chairman, I will be extremely brief.

Chairman MCDERMOTT. Mr. Davis will inquire.

Mr. DAVIS. I won't take the 5 minutes, but let me just enter an observation because I like Mr. Weller very much and I am sorry that he is retiring and leaving the House. I have an enormous amount of respect for him, I sincerely mean that, but he made an observation that I think is worthy of rebutting.

He was talking about the limited resources we have. We have limited resources in part because we are spending $12 billion a month in Iraq. We have limited resources in part because we have substantially reduced income tax rates for people who are exceptionally well-heeled in this country. The average reduction of their tax burden is $104,000 a year, and that is for people who are making over $1 million.

Ultimately, I just finished reading a wonderful book I would recommend to a lot of people in the room called "The Last Campaign", about Robert Kennedy's valiant 85 day effort ended by Sirhan Sir-

han in California in 1968, and it talks about Senator Kennedy's last campaign, and he talked way before the issue was fashionable about sustained Federal efforts to reduce poverty.

He believed the question was not one of resources, frankly, he believed it was one of political will. I think that is the really relevant part of this conversation.

How do we build the political will in this country to be as zealous about reducing poverty as we were 5 years ago about promoting democracy in Iraq and the Middle East? How do we build the political will to be as zealous about reducing poverty and the bite of poverty in this country as we have been about offering the political climate in other countries around the world?

That is not a resources question ultimately. It is a question of what we want to do.

Did you want to speak to that Dr. Blank?

Dr. BLANK. Only to say that I agree completely.

[Laughter.]

Dr. DANZIGER. I also agree. I am reminded of the quote which we heard in two of the testimonies, the Ronald Reagan quote about the war on poverty being a failure.

I think the important point is that there is clear agreement that government benefits like the earned income tax credit, and food stamps ought to be added to the income measure and are part of the government's efforts that have reduced poverty more than the current measure shows.

I also think one can look to the United Kingdom where, Tony Blair set a goal of reducing child poverty in the United Kingdom in the late 1990s. I applaud exactly setting such a goal. Blair used political will and focused attention on poverty. Then he put a set of programs in place that are based on U.S. programs. Many of the British programs which have cut poverty in the U.K. substantially for children over the last 10 years, were essentially copies of American programs imported. The political will got people to look at programs which might seem to be discredited in the United States because we have this preconceived notion that government programs don't work.

Chairman MCDERMOTT. Could you give us the specifics? Which ones of the programs did they copy?

Dr. DANZIGER. They have a program called Sure Start, which sounds a lot like Head Start. However, in a very short period of time, almost all low-income 3-year-olds and 4-year-olds in the U.K. were in these child care programs.

Mr. DAVIS. I take it they didn't spend 4 years trying to reduce it in their budget. They didn't go through five or 6 years of trying to slash the budget for it.

Dr. DANZIGER. They spent about 1 percent of GNP on the program expansions. They adopted the Working Families Tax Credit, which sounds like the earned income tax credit, but it is a lot bigger than ours and goes to a lot more people.

I can supply for the record some papers that analyze them.

Chairman MCDERMOTT. I would appreciate your doing that because I think it would be useful for the Committee.

Mr. WELLER. Mr. Chairman?

Chairman MCDERMOTT. Yes.

Mr. WELLER. I would be interested in knowing, since our friends in Britain have adopted some U.S. ideas, do they include those benefits as part of determining the poverty line?

Dr. DANZIGER. Sure. Sure. No, it is important

Mr. WELLER. So, they have factored that in. So, they have adopted what some of us have been advocating.

Dr. DANZIGER. Yes.

Mr. WELLER. Okay.

Mr. DAVIS. Thank you Mr. Chairman.

Chairman MCDERMOTT. Mr. Stark will inquire.

Mr. STARK. I just wanted to see if there is any kind of research, Mr. Weller suggested that the cost or the impact of the poverty program, and I would like to look at the other side and see if there is any research on the cost of not doing it.

Mr. Davis brought up the question of 50 percent drop out rate from high school in his area. Actually, the drop out rate in the United States is such that 30 percent of the children who enter high school this coming September won't graduate. 50 percent of those children who enter school in September who are not white won't graduate.

So, then I hopped to California and I suggest to you, what does a 15 year old with an eighth grade literacy, that is spotting them a lot higher than I think they have got, what is a 15 year old do when they drop out of high school, say after ninth grade, tenth grade, can't read, calculate much above middle school, if that. What do they do?

I am going to tell you that in California, a good number of them will end up in what we call the system. Now in California and I suspect it is not much different in New York, if you get tagged with a felony before you are 20, you will spend on average half of the time between 20 and 50 in the system. That is 15 years either in the tank, on parole, under some kind of State supervised activity. It costs $60,000 a year.

So, what I am getting at is that for each one of these kids that drops out, that gets in the system, we lose $900,000, okay? Is my math right? I can do that with my shoe and socks on, okay. What are the odds, are you doing research today, if we took that $900,000, how many kids do I have to get through high school to save that $900,000? If I get one in ten? Going to spend 90 grand to get a kid to keep in school.

Are you doing any of that sort of research to show me and Jerry what happens if we don't spend the money? Hey, we can find out what is going to happen if we do spend it, because the budget office is going to tell us what it costs, but we don't get many figures of what happens if we don't do something. Are you guys studying that?

Mr. NELSON. Annie Casey Foundation has been interested in watching kids end up in the juvenile justice system and the foster care system and outside of an employment track. These are the kids that we first committed ourselves to understand, and the most important thing about those children is they disproportionately come from families who are persistently poor. So, there is a very big correlation.

It is very, very expensive, and it is your numbers. In many ways these are lifelong consequences, and they are not only consequences of lost productivity to the economy, but they are very large tax consequences.

The subject of inefficiencies came up and I know this seems a long way removed from the proper measure of poverty, but if we understood poverty more accurately and had a shared understanding of it, we would see in this country two inefficiencies which really go to Congressman Weller's genuine resource question.

One is, poor families are inefficient consumers. Casey has published a lot about the high cost of being poor, and they pay more for credit, for financial transactions, for groceries, for goods and services, so you have got poor people compromising their own ability to get by by being compelled to be bad and inefficient consumers. They have medical debt and other kinds of debt that burden what limited income they have.

There is also a bigger social inefficiency which I wish we would focus on, and that social inefficiency is, unless we give ourselves the tools to reduce poverty, we are going to continue to create enormous long term tax obligations and lost productivity to this economy and lost competitiveness to this economy.

So, even if the short run, which I don't think there is anything in this recommendation that requires a change in public expenditures, but even if a better understanding of poverty did create a condition at State and Federal level where we invested more in low income families to raise them out of poverty, the long run return in terms of tax expenditures would be beneficial to the country's conservative resource calculations.

So, I think this really is a resource question and we are wasting

Mr. STARK. Dr. Meyer has got to do some research so I can sell Congressman Weller on the thought that we ought to spend the money because we will save the money down the line. We won't get budget scored for it unfortunately but that is that is the other side of this coin as your just so eloquently outlined, but what is going on out there in the research world that looks at the other side of this coin, and that is the cost in inactivity?

Chairman MCDERMOTT. I am going to exercise my prerogatives as the Chairman.

There is another meeting starting, although I do see in Dr. Nelson's testimony that economists now estimate child poverty costs the Nation about $500 billion a year. So, there must be something going on some place that is being aggregated.

I don't expect us to be flooded with cards and letters to pass this piece of legislation, but we really do appreciate your coming because I think it is important as a standard by which people can measure what other programs may come about.

I was sitting here thinking about the fact that we put through this Committee a reform of the unemployment insurance legislation. We took into account the changes in the way employment patterns in this country are. It isn't dad who goes to work and mom stays home anymore, it is part time workers and it is two-parent families and all the rest, and we really need to update what we are measuring in unemployment. I think the same is true here and we will have further hearings on this.

Meeting is adjourned.
[Whereupon, at 11:36 a.m., the hearing was adjourned.]
[Submissions for the Record follow:]

Office of the Mayor
City & County of San Francisco

Gavin Newsom

FOR THE RECORD **Written Testimony Submitted to the Subcommittee on Income Security and Family Support of the U.S. House of Representatives' Committee on Ways and Means**

Pursuant to its July 17, 2008 Public Hearing on Proposals to Develop a Modern Poverty Measure

By Mayor Gavin Newsom, City and County of San Francisco

Thank you for the opportunity to provide written testimony on the important question of how poverty is measured in America. As Mayor of the City and County of San Francisco this topic is near and dear to my heart for two reasons.

First, my background in business led me to develop a staunch belief in the use of accurate data to guide decision making, and I have applied that principle to the work of running a city government as well. Shortly into my first term, I established SF Stat, a regular management meeting at which the heads of city departments present key statistics and data trends to a panel of senior policymakers. These data are useful to help diagnose problems and inefficiencies in government operations, to determine how scarce city resources should be allocated and to pinpoint which city services and interventions are effective and which are not. In my role as co-chair of the U.S. Conference of Mayors' (USCM) Hunger and Homelessness Task Force, I have also been a strong supporter of the USCM's annual survey of local jurisdictions to assess the nationwide prevalence of food and housing needs. The survey provides regularly updated data that helps measure the food and housing security of low-income households and gauge the adequacy of resources devoted to mitigating hunger and homelessness.

Secondly, during my time in public office I have made it a priority to implement strategies to combat poverty and inequality in San Francisco. Using local resources, we are making universal health care a reality, rebuilding the city's most distressed public housing and providing local tax credits to working families. Why has San Francisco stepped up to the plate with these and other similar initiatives? Because things like housing and health care are necessary, but not available, to all. Anyone who is well-off enough to have visited San Francisco knows that we are one of the highest cost of living cities in the nation. And anyone who is poor and lives in San Francisco knows that is it a constant struggle to make ends meet here.

Sadly, this problem is not unique to San Francisco. I recently joined Share Our Strength, a national organization working to ensure that no child in America grows up hungry, in urging the USCM, private businesses, philanthropic organizations and our federal lawmakers to provide the resources needed to end child hunger. It seems unthinkable in a nation as wealthy as the United States, but today twelve million American children are at risk of hunger.

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This brings us back to the question of how much a family needs to live on, and the related question of how to accurately calculate a poverty rate. . The current federal poverty measure compares a household's annual cash income to a fixed poverty threshold intended to represent the level of income needed to support a basic level of subsistence. Unfortunately however, the current measure is deeply flawed and paints an inaccurate picture of how Americans are faring economically.

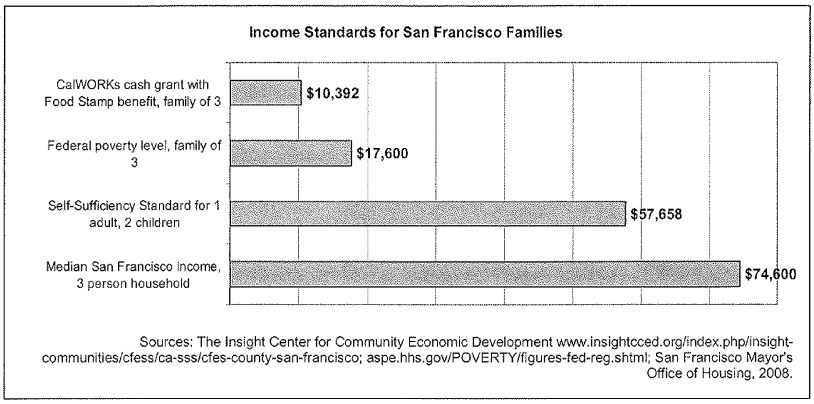
The methodology for establishing the federal poverty line is premised on household consumption data from over fifty years ago, at which time the average family spent one-third of its income on food. While the poverty line is adjusted annually for inflation, the calculation itself has never been revised, despite the fact that food expenditures have dropped to roughly one-seventh of the average income of today's families. The measure does not account for the true cost of housing, medical care and work-related expenses such as child care and transportation, relying instead on food prices from the 1950s as a proxy for the amount a household needs to get by. To illustrate the inadequacy of this metric, consider that health care costs in San Francisco have increased by 30% in the last five years alone. Not only does the current poverty measure rely exclusively on outdated food prices; it also fails to take into account regional differences in the cost of living, which range widely. Drawing on San Francisco again as an example, consider the notoriously high housing costs for which the Northern California Bay Area is known. As a result of these shortcomings, the poverty line is a grossly outdated measure entirely unrelated to the reality of what it takes to cover the basic costs of living in the United States in the year 2008.

Additionally, the current methodology for calculating poverty rates is based on an incomplete picture of household resources that takes only cash income into account. Non-cash public benefits designed to ease the day-to-day experience of economic hardship for low-income households have no impact on the poverty rate calculation. By failing to account for benefits such as Food Stamps, Medicaid, child care subsidies and the Earned Income Tax credit, we miss an opportunity to measure the effectiveness of these anti-poverty programs.

Many policy and advocacy organizations around the country have noted the deficiencies of the current poverty measure and rallied in support of various alternatives that have been developed. One potential starting point for discussion is the set of recommendations issued in 1995 by the National Academy of Sciences (NAS), which called for the federal measure to be revised and updated in order to improve its relevance and accuracy. Legislation being prepared by the office of Representative Jim McDermott would charge the U.S. Census Bureau with calculating a modern poverty rate using a methodology that builds upon the NAS recommendations

Another model that we in San Francisco have looked to was developed closer to home by the Insight Center for Community Economic Development in Oakland, California in partnership with other national organizations. The Center publishes a Family Economic Self-Sufficiency Standard and an Elder Economic Security Standard, both of which use regionally adjusted actual living costs and household-specific needs to paint a more accurate picture of how much is required to afford the basic necessities. As the chart below illustrates, at $17,600 the current federal poverty level for a family of three is just 30% of the Self-Sufficiency Standard for a similarly-sized family living in San Francisco. It is worth noting that the Self-Sufficiency Standard itself is only 77% of the median income for a family of three in San Francisco, which is perhaps the most telling indicator of how much is actually required to live here comfortably. The income of a family on CalWORKs (California's version of the federal TANF welfare-to-work program) provides another data point for comparison. While recipients of this public benefit

reach 60% of the federal poverty level, their cash assistance income amounts to only 18% of the Self-Sufficiency Standard. This suggests just how difficult it will be for these families to make the transition to economic independence, and underscores the need for more robust strategies to support work and asset development for low-income individuals.



The poverty measure has significant impacts on individuals when it is used to determine eligibility for federal and state benefit programs, and significant impacts on the nation as a whole when it is used to determine federal budget allocations. Some will undoubtedly raise the concern that updating the federal poverty measure will advantage some groups over others or significantly increase the number of people categorized as poor. While this may be true, such concerns should not distract us from seeking to understand the true economic situation of American households. Only when the scope and nature of poverty in America is fully understood can we redirect our best efforts to eradicating it.

Required supplemental information regarding the witness in this testimony:

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Wider Opportunities for Women

Statement of Joan A. Kuriansky
Executive Director, Wider Opportunities for Women

Submitted for the Record
Subcommittee on Income Security and Family Support
Committee on Ways and Means
Hearing on Measuring American Poverty
July 17, 2008

Wider Opportunities for Women (WOW) applauds Chairman Jim McDermott for releasing draft legislation, the Measuring American Poverty Act, that would establish a Modern Poverty Measure to replace current federal poverty guidelines in use since 1964. That same year, 1964, is when WOW was founded as a women employment rights organization. We continue to work nationally and in our home community of Washington, DC, to help women and all workers achieve economic security for themselves and their families.

The discussion draft goes a long way toward addressing the deep flaws in the current poverty measure. In addition, WOW is most pleased with the bill's proposal for a new study by the National Academy of Sciences to define a "decent living standard threshold," or "the amount of annual income that would allow an individual to live beyond deprivation at a safe and decent, but modest, standard of income." (Section 1150C) Anticipating that this will be a measure of genuine income adequacy rather than the deprivation measured by the new poverty line, it holds great potential for use by policy makers at all levels, service providers and others who seeking to help families and individuals obtain employment and income supports necessary to meet their basic income needs both today and into retirement.

We hope the Decent Living Standard does not get overlooked in the rightful attention that will be paid to revising the poverty measure. WOW stands ready to work with the subcommittee and the National Academy of Sciences, as described later in my testimony, to help inform the methodology for a Decent Living Standard based on our experience operating two national initiatives centered on measures of true income needs, the Family Economic Self-Sufficiency Standard (Family Standard) [1] and the Elder Economic Security Standard™ Index (the Elder Index). [2]

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[1] The Self-Sufficiency Standard was developed by Dr. Diana Pearce of the University of Washington who at the time was Director of the Women and Poverty project at WOW

[2] The Elder Economic Security Standard™ Index (the Index) was developed by WOW and the Gerontology Institute at the University of Massachusetts Boston.

Comments on the Proposed Modern Poverty Measure

The United States deserves an official measure of poverty that genuinely identifies the level of distress for those in society in dire need of assistance. For many years, WOW and others have advocated an alternative poverty measure that does not rely simplistically on a ratio based on the cost of food. The original ratio of three times the cost of food is sorely outdated as food, according to the Consumer Expenditure Survey, now consumes less than 15 percent of budgets and the cost of housing and fuel have taken on much greater proportions. WOW has long advocated the use of a broader measure and one that is geographically specific, reflects family size and age, incorporates families' real costs, and responds elastically and periodically to changes in prices. We believe the proposed Modern Poverty Measure, moves in this direction and we would like to work with you on any refinements along these lines.

Underpinning the proposed Modern Poverty Measure is the National Academy of Science's 1995 study of alternative poverty measures, which addressed many of the flawed assumptions and methodology of the current poverty level. The Modern Poverty Measure will adjust the new poverty threshold annually relative to a percentage (somewhat less than the median) of food, shelter, utilities and clothing expenses reported in the Consumer Expenditure Survey. It would then determine the number and percentage of people below that level (the new poverty rate) by subtracting from a broad measure of after-tax income and the expenses related to work such as transportation, child care and out-of pocket medical costs. Most importantly, it will also measure progress in the fight against poverty, or lack thereof, by including in a broad definition of income, including government cash and cash-like transfer payments and net taxes.

One concern we have is that basing the new poverty threshold solely on the cost of food, shelter, utilities and clothing will lead to the impression that this total is sufficient to enable a family to get by in today's world. The costs of even a minimal level of child care, health care and transportation are not taken into account as part of the threshold. Granted, such work related expenses and taxes are accounted for in determining the poverty *rate*, but the threshold itself will not be wholly reflective of current living standards. Combining two goals – setting a threshold or standard of need and adding in how people pay for those costs –does not provide an accurate measure. One's expenses are more a reflection of what one can afford than what are the actual costs of meeting a minimal need. In addition we are concerned that calculating costs such as health care only secondarily in the calculation of the poverty *rate* diminishes the extent to which health care is a realistic expectation in modern society. The discussion draft's "medical risk index" will address this to some extent but outside the framework of either the poverty threshold or rate. Expenses such as child care and transportation, while not universal, are nevertheless essential to the economic viability any family. WOW is interested in helping clarify these issues.

As the committee moves ahead with this legislation, WOW would be happy to work with you and the Census Bureau to ensure that health care and other expenses are addressed in the best way possible and that:

- The Modern Poverty Measure and the Decent Living Standard will be geographically specific "to the maximum extent possible" as stated in the draft legislation and the NAS report. This is important because housing has a disproportionate impact on family income needs, and housing markets vary significantly across the country. It is also essential to identify geographically-based data sources for child care and other goods and services.

- The methodology accounts for age and other demographic differences. Those age 65 and over do not have the same work-related expenses as working age Americans, and their economic well-being is greatly affected by their housing and health status. In fact, extraordinary costs that some elderly face for long term care and housing may warrant a separate measure.

- Consideration is given to creating a commission to review annual findings that inform the public about how many Americans are living at or below the new poverty measure and the proposed "Decent Living Standard." Such a commission should make recommendations on how to close the income gap for those whose income does not reach the decent living standard. The information should be analyzed for individual cohorts of age, gender and race.

Comments on the Decent Living Standard

The Decent Living Standard as currently proposed properly focuses attention on a "threshold" as opposed to the rate at which the population falls below that line. As a result, it holds greater promise of describing what income is genuinely required to meet basic needs. Since 1994, WOW has used this sort of standard to conduct our Family Economic Self-Sufficiency Project (FESS) which now operates in 35 states and the District of Columbia. At the heart of FESS, undertaken in conjunction with state and local governments and nonprofit partners, is the Family Economic Self-Sufficiency Standard ("Family Standard"). More recently, WOW developed a second project, the Elder Economic Security Initiative, based on a similar measure of income adequacy for seniors age 65 and over, the Elder Economic Security Standard™ Index ("Elder Index"). We would hope that the proposed Decent Living Standard will be patterned on the Family Standard and Elder Index in order to become the benchmark of true family need and to be compatible with work already under way across the nation.

Both the Family Standard and Elder Index reflect true, up-to-date, geographically-specific costs of living. The Family Standard distinguishes between 70 sizes and configurations of working families. The Standard presents the minimum income needed to cover the basic costs of seven items, including: food, housing (including utilities), transportation, child care, out-of pocket health care costs under an employer-based program, net taxes and miscellaneous household expenses (such as telephone and clothing costs), assuming both parents work and the family is to live *without public or private assistance* of any kind. Calculated down to the county level, the Family Standard distinguishes between families of different sizes and the age of children since, for example, the cost of child care varies by age of the child. The miscellaneous expense is assumed to be a modest ten percent of other costs, a minimal amount that allows for no recreation, eating out or major purchases. Taxes include the payroll tax, state and local income taxes, the Earned Income Tax Credit, Child and Dependent Care Tax Credit and Child Tax Credit.

The Elder Index establishes a similar measure of the income that adults aged 65 and over require to maintain their independence and meet their daily expenses, including affordable and appropriate housing and health care. The Elder Index uses similar data as the Family Standard, but it offers a range of costs based on differences in household type, housing tenure, and health status. It differentiates between individuals and couples and those who own their homes free and clear, those who rent and those who still hold mortgages. The latter category is critical, as evidenced by the recent subprime mortgage crisis and the fact that in many states 20 percent of those 65 and older still hold mortgages. Costs of home- and community-based long-term care are also included in the Elder Index.

Both measures use official or reliable private data sources such as HUD's Fair Market Rent, the USDA Low-Cost Food Plan, sub-state child care market rates published by state TANF agencies, local public transportation fares where widely available, the IRS mileage allowance, and, for out-of-pocket health costs, the Medical Expenditure Panel Survey (MEPS), and the U.S. Department of Health and Human Services and Kaiser Family Foundation data on Medicare premiums. Home and community-based long term care costs for seniors are determined using a methodology designed by the Gerontology Institute at the University of Massachusetts Boston in consultation with leaders in the aging field which covers four different levels of need.

The following table illustrates the two measures against the current federal poverty level for the home county of Ranking Member Weller. Very roughly speaking, the Family Standard and the Elder Index approximate 200 percent of the current poverty level except in very high cost housing markets and for seniors with poor health status.

Table 1: Selected Standards of Economic Well-Being for LaSalle County, IL, 2007

Standard	1 Adult	1 Adult + Infant	2 Adults + 2 School age	Elder Individual	Elder Couple
Self-Sufficiency Standard*	$15,718	$26,599	$37,936	-	-
Elder Economic Security Standard Index	-	-	-	$18,701	$27,596
Federal Poverty Level	$10,210	$13,690	$20,650	$10,210	$13,690

Sources: Pearce, Diana, Brooks, Jennifer, *The Self-Sufficiency Standard for Illinois* (Washington, DC: Diana Pearce, Wider Opportunities for Women, and Women Employed, 2001). Figures inflated to 2007 using the CPI for the North Central/Midwest region; Russell, Laura Henze, Bruce, Ellen A., and Wider Opportunities for Women, *The Elder Economic Security Standard™ Index for Illinois* (Washington, DC: Wider Opportunities for Women, 2008); *Federal Register*, Vol. 72, No. 15, January 24, 2007, 3147–3148.

Note: Self-Sufficiency Standard figures assume all adults are working and incur work-related expenses such as childcare and work-related transportation. Self-Sufficiency Standard and Elder Economic Security Standard Index figures are for renters.

The above table shows the level of income needed to make ends meet with no public or private support such as welfare, health benefits or babysitting provided by family member. These factors are taken into account by state partners in secondary studies once the threshold has been established.

Akin to the poverty rate, the percentage of population beneath the Family Standard is calculated by some of our state partners in "Overlooked and Undercounted" reports. These studies use income data from the Decennial Census, American Community Survey and Current Population Survey to show the share of the state's population that is unable to meet basic living costs determined in their most recent updates of the Family Standard. We recommend that partners update their Family Standards at least every three years, using Current Price Index updates in intervening years.

The following table shows the percentage of households with incomes below the Family Standard in selected states. Deeper analysis yields interesting observations. In California, "*Households maintained by women raising children alone—of all racial and ethnic groups—have high levels of substandard incomes, yet some of the highest levels of income inadequacy are also found among Latino and African American married-couple and male-headed families.*"[3]

[3] "Overlooked and Undercounted: a New Perspective on the Struggle to Make Ends Meet in California," Diana Pearce, Wider Opportunities for Women and the National Economic Development and Law Center.

Table 2: Total Households with Incomes Below the Local Self-Sufficiency Standard, Selected States

State	% Below the Family Standard	Year of Study
California	30%	2003
Washington	21%	2007
Colorado	20%	2007
Connecticut	19%	2007
New Jersey	20%	2008

Another way that income is considered once the Family Standard and Elder Index have been established in a state is to model the impact of work and income supports such as food stamps, low-income prescription drug assistance, SSI, TANF, state and federal health programs, child care for families and energy assistance. Table 3 shows how federal assistance programs interrelate to affect the degree to which a senior reaches economic security (federal programs such as food stamps and the federal prescription assistance Low Income Subsidy are frequently supplemented and renamed at the state level). Even with housing assistance and an array of other supports, an older woman living on the average Social Security payment falls short of economic security by $154 a month.

Table 3: The Impact of Supports on Monthly Costs and Economic Security for a Single Elder Renter Living on Average Social Security for Women ($931/mo, $11,168/yr) in Marathon County, WI, 2008

While Public Support Programs Reduce Expenses, Wisconsin Elders Still Fall Short of Economic Security						
		Income Plus…				
Average Monthly Social Security Income	$931					
Elder Economic Security Index (Total Monthly Expenses)	$1,527	FoodShare	FoodShare + **Rx Assist.**	FoodShare + Rx Assist. + **Medical Assist.**	FoodShare + Rx Assist. + Medical Assist. + **Energy Assist.***	FoodShare + Rx Assist. + Medical Assist. + Housing Assist.
Monthly Shortfall	-$596	-$596	-$544	-$448	-$391	-$154
% Economic Security Attained	61%	61%	63%	68%	70%	86%

Scenario modeled from: Wider Opportunities for Women, *Elders Living on the Edge: When Meeting Basic Needs Exceeds Available Income in Wisconsin* (Washington, DC: Wider Opportunities for Women, 2008). * Utility expenses are included in housing expense. Utility assistance calculations are based on the 2007 WHEAP benefit standard.

How the Family Standard and Elder index Are Used

Advocates, policymakers and direct service providers demonstrate great interest in not only an improved basic measure of poverty, but a decent living threshold. The Family Standard and the Elder Index are employed in various ways across the country by governors' offices, elected officials at all levels, state and local administrators, community-based direct service providers, private industry, advocates, and individual citizens. They welcome the Standard and the Index after years of frustration with policy driven by the outdated federal poverty measure.

The Family Standard has been calculated for 35 states and the District of Columbia. Most are sponsored by WOW's nonprofit partners who form coalitions in their states that today represent more than 2,000 state and local organizations nationwide and comprise WOW's national Family Economic Self-Sufficiency (FESS) network. They have in common a clear desire and need for a decent living threshold while they design, conduct, advocate for and evaluate programs and policies that move low-income families toward economic independence.

Connecticut was the first state to require the calculation of a Self-Sufficiency Standard in 1998. In 2001, the state legislature passed legislation requiring the measure to be recalculated biannually. The Hawaii, Illinois and West Virginia state legislatures have adopted the Self-Sufficiency Standard as official income and program benchmarks. The Wyoming Governor's Planning Office supported development of a Standard for the state and subsequently created the online Colorado Self-Sufficiency Calculator. Thirteen Workforce Investment Boards – in Arizona, California, Connecticut, Illinois, Maine, Maryland, Massachusetts, Minnesota, Montana, Oregon, Pennsylvania, Washington and Wisconsin – have defined and implemented the concept of self-sufficiency for economic and workforce development purposes.

At a time when policy makers on both the federal and state level are struggling with decreasing resources an income standard using concrete costs, supplemented by an analysis of the impact of different public benefits, can help policy makers compare and assess the value of different benefits in helping those individuals and families in need. Policy makers can use this information to answer the questions about how best to support individuals while they pursue long-term strategies to becoming self-sufficient.

A number of states have put the Family Economic Self-Sufficiency Standard on-line, some of them creating a dynamic tool accessible to the public. [4] The most sophisticated allow the user to test out different scenarios to show how a family can move closer to (or further from) meeting their basic income needs if they, say, decide to have another child, get a different job, move to another county or obtain a benefit such as food stamps for which they appear eligible based on current program rules. Legislators and program administrators can use the on-line calculators to see the impact of various policy changes they may be considering. Landlords can use them to assess whether applicants have sufficient income to pay a certain rent. Guidance counselors can show clients career paths that will lead to income adequacy for their families.

In 2003, 36 percent of local Workforce Investment Boards reported using the Self-Sufficiency Standard as they implemented WIA in responses to a survey conducted by Wider Opportunities for Women and

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[4] *California:* www.insightcced.org/index.php?page=calculator
Illinois: www.ides.state.il.us/calculator/default.asp
Indiana: www.region4workforceboard.org/calculator/selfsuffcalc.cfm
New York City: www.wceca.org
Massachusetts: www.liveworkthrive.org/calculator.php
New York State, Erie County: www.everywoman.org/index.php
Washington State: www.thecalculator.org
Wyoming: www.wyomingworkforce.org/resources/tools_sscalc.aspx
Washington, D.C: www.dcmassc.org
Colorado: www.coloradoselfsufficiencystandardcalculator.org

the WIA-authorized National Association of Workforce Boards. The survey found that more than one-third of local workforce boards around the country use the Self-Sufficiency Standard or a similar measure to determine eligibility standards, direct training dollars and establish goals for local programs. The Seattle-King County Workforce Board, for example, integrated the Self-Sufficiency Standard into virtually every facet of its program, using it to counsel job-seekers, track pre- and post-program income and measure program success. T

The Standard is also used by state government entities and nonprofits to establish wage and other workforce standards. Colorado College (www.coloradocollege.edu) uses the Self-Sufficiency Standard to set entry-level wages for all of their food and janitorial services employees. Additionally, all of their sub-contractors for these services are required to use these entry-level wages with their employees.

The U.S. Department of Health and Human Services Office of Community Services has included the Family Standard in its reporting requirements for state Community Services Block Grant administrators and the over 1,000 community action agencies that are overseen by state administrators. The U.S. DHHS Office of Community Services uses the data in its Program Assessment Rating Tool and Government Performance and Results Act reports to the Office of Management and Budget. Finally, the Family Standard has been referenced as goals in federal policy, such as the Carl T. Perkins Career and Technical Education Act and the recent Green Jobs Act.

The Elder Index has already had an impact on policy and opinion since it was released. To date, WOW, the Gerontology Institute and statewide partners have released the Elder Index for five states, California, Pennsylvania, Illinois, Massachusetts and Wisconsin. Research is underway in four additional states, Connecticut, New Jersey, Michigan and Minnesota.[5] Our lead state partners work in collaboration with statewide coalitions which include over 300 organizations.

In Massachusetts, drawing on concepts and tools of the Elder Index, the Massachusetts state legislature has passed legislation to increase the amount of assets, from $2,000 to $10,000, that a senior can retain when applying for public home and community-based long-term care services. The State Secretary of Elder Affairs is drafting a letter encouraging the state's Area Agencies on Aging to incorporate the Index into planning and programming. The Elder Index has been cited by a statewide committee working to assure equitable access to the Low Income Home Energy Assistance (LIHEAP) program for low-income families and individuals. Our partner in Massachusetts has used the Elder Index in training service providers to recognize common risk factors for housing foreclosure. Additionally, the Elder Index has served as a tool to educate seniors on the availability of income support programs and to reduce the stigma and other barriers to their enrollment through a messaging campaign: *"It's Not Your Fault".*

In California, the data was released less than 5 months ago and already the findings of the California Elder Index have made their way into state legislation in support of "shared housing" for special needs housing assistance recipients and reducing their rent to 20% of income - *Assembly Bill 2521*. In addition,

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[5] State partners include Pathways PA in Holmes, PA; Health and Medicine Policy Research Group in Chicago, IL; the Insight Center for Community and Economic Development (formerly NEDLC) in Oakland, CA; the Massachusetts Association of Older Americans, Inc.; the Wisconsin Women's Network; the New Jersey Foundation for Aging; the Connecticut Permanent Commission on the Status of Women; Elder Law of Michigan, Inc.; and the Minnesota Women's Consortium in partnership with the Legislative Office on the Economic Status of Women, the Minnesota Dept. of Human Service (including the Office of Economic Opportunity and the state Board on Aging), the Minnesota Community Action Partnership, and the University of Minnesota Center on Aging.

Assembly Member Beall of San Jose, Chair of the Human Services Committee, invited our state partner to work with the statewide coalition on drafting a bill for California to adopt the Elder Index. The Chair of the California Senate Aging and Long-term Care Committee is exploring the cost of updating the Elder Index annually as a line-item in the state budget. The Mayor of Los Angeles has issued a letter promoting use of the Elder Index in local policy and program planning. The Elder Index has been used as a tool to illustrate why legislators need to lift the state's freeze on Cost of Living Adjustments (COLA) for Supplemental Security Income (SSI). The Elder Index informs United Way of the Bay Area strategic planning. It also has been incorporated as a measure of economic vulnerability for direct service providers in case management programs administered by Area Agencies on Aging. Our California partner is currently researching the number of California seniors living on incomes above and below the Elder Index and regularly uses the data in testimony ranging from hearings on local issues to the global food crisis.

In Pennsylvania, the Secretary of the Department on Aging issued a statement supporting the Elder Index. The Elder Index informs Area Agencies on Aging and Pennsylvania Department on Aging strategic planning by illustrating the the restraints facing community-based service providers. Our state partner cites the Elder Index to inform advocacy efforts pertaining to the state's Family Caregiver Support Program and Options, a community-based long-term care program. The Pennsylvania Elder Index has been described at international, national and state venues to audiences ranging from seniors to policy makers.

In Illinois, the Elder Index has received statewide and regional media coverage following its recent release. The Elder Index is regularly presented at state and regional venues, including local Area Agencies on Aging, for a range of audiences, such as seniors, service providers, policy makers and advocates.

In Wisconsin, Senator Herb Kohl, Chair of the Senate Special Committee on Aging, along with Lieutenant Governor Barbara Lawton, issued statements supporting the Elder Index. The Elder Index is presented at state and regional venues, including the annual convention of the Coalition of Wisconsin Aging Groups and local Area Agencies on Aging, for a range of audiences including seniors, service providers, policy makers and advocates. In addition, our state partner was invited to present the Elder Index to staff at the Wisconsin Department of Health Family Services.

In conclusion, this rich body of knowledge and experience is capable of informing the Subcommittee on Income Security and Family Support as it considers refinements to the Chairman's discussion draft, a starting point in the discussion of establishing alternatives to the current poverty measure. The proposal for a Decent Living Standard offers an opportunity for the federal government to set goals that recognize the true cost of living beyond a level of impoverishment and deprivation. We encourage you to model the definition of this modest living standard on the existing Family Economic Self-Sufficiency Standard and Elder Economic Security Standard™ Index that already have been embraced by so many across the country.

Wider Opportunities for Women (WOW) leads two national networks promoting economic security within the United States: the Family Economic Self-Sufficiency Project (FESS) focusing on the needs of low- income working families and the Elder Economic Security Initiative, addressing what income seniors require to age in place. WOW works in 35 states, the District of Columbia, and at the federal level to promote programs and policies that accurately measure the income and assistance needs of families and the elderly. For more information, please visit www.wowonline.org.

AARP appreciates the opportunity to submit a statement in support of updating the Census poverty measure. We commend Chairman McDermott and Representative Weller for holding a hearing to examine the inadequacies of the current poverty measure, and applaud Chairman McDermott's commitment to update the definition of poverty. It is important that we have a measure that is accurate, non-ideological and reflects current living conditions.

The poverty measure is one of the most important social indicators used by both the public and private sectors to asses how well we are doing as a society in improving the lives of people with meager resources, young and old. The poverty measure is used for domestic policy formulation and research, and influences public perceptions of well-being in America. Yet the way the United States measures poverty today is greatly outdated. Because it focuses only on income rather than needs, it does a poor job of accurately accounting for necessary and rising living expenses, such as health and energy costs, that put an enormous strain on the incomes of most households, both those that are currently defined as poor and those that are not. The current measure also fails to account for income assistance from public programs that have made great strides in ameliorating poverty.

The current measure has not changed in more than 40 years and is outdated. During that time, changes in the nation's economy have affected family economic well-being, yet these changes are not reflected in the poverty calculation. For example, health care costs as a share of total spending have risen markedly since the current poverty measure was adopted. Adjusting for out-of-pocket medical expenses (subtracting them from income) would increase the 2006 poverty rate for all Americans by 0.1 percentage points (from 12.3 to 12.4 percent); but it would increase the poverty rate among older Americans by 5.8 points (from 9.4 to 15.2 percent). Adjusting for medical expenses and geographic variations in the cost of living would reduce the overall poverty rate to 12.2 percent; but it would increase the rate among persons aged 65 and over to 14.7 percent. Other types of adjustments might also be appropriate. Measuring poverty more accurately is a prerequisite to addressing the needs of those households that are most in need.

Even under the current incomplete measure of poverty, too many in our nation are poor. The poverty rate for older persons in the United States has not declined in many years, remaining at around 9 percent to 11 percent for the past decade. The total poverty rate for older individuals obscures wide variation by sex, race, and living arrangement. Women aged 65 and older had a poverty rate of 11.5 percent in 2006 compared to 6.6 percent for men in the same age group. Similarly, the poverty rate for older non-Hispanic whites was 7.0 percent, but for Hispanics it was 19.4 percent and for blacks 22.7 percent. Rates were even higher for minority women, and older women living alone are among America's poorest residents.

However, focusing only on those who are poor under the current poverty measure overlooks the large number of near-poor older persons at risk of falling into poverty for any number of reasons—the death of a spouse, unexpected health care expenditures, or rising utility bills, for example. One of the more restrictive definitions sets "near poor" at 125 percent of the current poverty measure. Using that definition, some 3.4 million persons aged 65 and older in the United States were poor in 2006 and another 2.2 million were near poor.

Recently, the AARP Foundation, AARP's affiliated charity dedicated to confronting the economic challenges that Americans face as they age, issued *Poverty & Aging in America*, a report that profiles older Americans living in poverty or at risk of falling into poverty. The AARP Foundation also hosted a symposium on poverty and aging in America. The AARP Foundation's goal in holding this symposium was to explore avenues to improve the quality of life for older persons living in poverty or who are at high risk of falling into poverty. Clearly, a more accurate measure of poverty would allow all of us, both in the public and private sectors, to better assess who is most in need, and what are the best pathways for improving the quality of their lives.

Even applying an outdated measure of poverty, *Poverty & Aging in America* provides a sobering portrait of the lives of older poor and near poor individuals. A few of the key findings of the AARP Foundation's report include the following:

- Social Security is critical to keeping people out of poverty—The poverty rate for persons age 65 and over would have increased from 9.4 percent to an astonishing 44.9 percent in 2006 without Social Security.
- Only 62.5 percent of persons ages 50—64 who are living in poverty have any public or private health insurance coverage. Almost one-quarter of persons age 50 and older living in poverty said they could not see a doctor in the last 12 months because of cost.

- Families headed by women make up the majority of older families in poverty and are most at risk of falling into poverty.
- Continuing to work increases income and helps keep people out of poverty—among persons age 50–64 living in poverty, only one quarter are in the workforce compared to over three quarters of people in this age group with incomes at or above twice the poverty level.
- Older people with low income also have few other financial resources. The median net worth of families age 50 and older living in poverty in 2004 was just $10,000. Older persons living in poverty are unlikely to receive retirement income from a traditional pension, 401(k) or similar plan. And while many older poor households own homes, those owners struggle to meet home-related expenses.
- A significant percentage of older families living in poverty have heavy debt burdens—Almost 1 in 5 families age 50 and older living in poverty have debt payments in excess of 40 percent of total income.

The overall portrait of persons age 50 and older living in or at risk of poverty that emerges from *Poverty & Aging in America* is of a population in economic distress. The report also highlights the critical role Social Security and other public programs play in preventing poverty among older persons and mitigating the effects of poverty.

Developing and implementing a more accurate measure of poverty would greatly contribute to a better understanding of the conditions under which all poor persons in America live. An updated poverty measure would also allow a more accurate assessment of the impact programs such as Social Security have on the lives of vulnerable populations, and would lead to the development of better-informed solutions to the special challenges that face specific sub-groups of the poor and near-poor, such as women, the elderly and minorities.

AARP supports the efforts of the Ways and Means Subcommittee on Income Security and Family Support to examine and reform the current poverty measure. We look forward to working with you in the future to reach the goal of establishing a modern poverty measure.

Dear Chairman McDermott:

The Coalition on Human Needs (CHN) applauds your efforts to create a more accurate measure of poverty in America and also to develop a "Decent Living Standard"—one showing the income necessary to satisfy modest but above-poverty needs. CHN is an independent alliance of more than 100 national organizations working to improve federal policy and funding to meet the needs of low-income and vulnerable people. CHN also serves a network of tens of thousands of advocates nationwide, including service providers, religious organizations, policy experts, labor, civil rights groups, and many others.

The Measuring American Poverty Act of 2008 includes elements that are in our view essential to modernizing the assessment of poverty. Among these are

- Counting expenditures more accurately
- Including certain public benefits as income
- Adjusting the calculation of poverty thresholds for regional differences in costs
- A means of showing the anti-poverty effects of benefits programs by comparing pre- and post-tax and transfer income
- A clear statement that the proposed changes are not to modify eligibility or amount of assistance for public benefits
- A provision to periodically re-assess the validity of the revised poverty measure

The measurement of poverty in America should not be seen as an arcane matter for researchers. Poverty is a costly and wasteful brake on the nation's economy and future. The most important reason to improve the measure of poverty is to gauge whether the steps we take to reduce it are working.

It is clear that the components of the Measuring American Poverty Act are closely intertwined. Many have correctly pointed out that the current measure is flawed in failing to count public benefits such as refundable tax credits, housing assistance, and food stamps as income. But today's poverty calculation is just as flawed for its outdated assessment of a poor family's expenses. Both income and expenditure must be assessed together to get a more accurate picture. We strongly favor the inclusion of cost estimates for housing, utilities, food, clothing, and other needs to get a better sense of what it means to be poor. Only food costs are included in the antiquated

measure now in use; the increasing costs of housing, heat, transportation, child care and out of pocket medical expenses are left out.

The Coalition on Human Needs is committed to setting a national goal to cut poverty in half in ten years. We are participating in Half in Ten: From Poverty to Prosperity, a new campaign run jointly by ACORN, the Center for American Progress, the Leadership Conference on Civil Rights, and CHN. Among the initiatives sought by the campaign are substantial improvements in the Child Tax Credit and Earned Income Tax Credit. Under the current poverty measure, success in achieving these important improvements will not result in any reduction in the official poverty rate because refundable tax credits are not counted as income. Similarly, CHN strongly supports increases in Food Stamp benefits, but when those occur the poverty rate will not change because food stamps are not counted as income. We need the change proposed in your legislation in order to see whether benefit increases have the desired effect, and further, whether certain population groups are helped more or less than others.

We also favor assessing regional differences. Every year, the Coalition on Human Needs works with state groups to help them understand how to make use of the state data released by the Census Bureau on poverty, income, housing, transportation, education, and demographic differences. It is clear that there are big differences in rural and urban areas and from one part of the country to another. None of these are currently reflected in the poverty data.

A more accurate poverty measure will also give us greater understanding of the needs of population subgroups. Our current standard may understate the hardships of the elderly in making ends meet by failing to take into account their high out of pocket medical costs. A new standard may help us to learn if poverty is more prevalent, or deeper, among certain demographic groups (race/ethnicity, age, rural/urban residence) because they are less likely to receive benefits.

A very valuable part of the Measuring American Poverty Act is its call for a study of a Decent Living Standard—the assessment of the income needed for a modest standard of living, one that exceeds the standard of the impoverished. If we are to help the millions of the poor to contribute to and share in the nation's prosperity, we need to assess not just whether families inch a few dollars over the poverty line, but whether they are able to join the middle class, increase their economic security, and help their children realize their potential.

We want to highlight our strong support for the bill's prohibition on using the new thresholds to change eligibility for public benefits. Under current practice, administrative agencies set poverty ***guidelines*** on an annual basis that are used to determine eligibility for means-tested programs. These are similar but not the same as the poverty ***thresholds*** established each year by the Census Bureau for research purposes. Maintaining this distinction is especially important as the new thresholds are devised. This legislation should help us to learn more about poverty and how to eradicate it, not exclude very low-income people from receiving assistance. After some period of study agencies may propose alterations in their eligibility standards; those should be considered separately, with the goal of poverty reduction foremost.

Whatever its imperfections, the current poverty measure has been very important in allowing us to see trends over time. We urge great care in making the transition from the old to the new standard, so that researchers remain able to evaluate trends. We also urge the Census Bureau to see as part of its mission the education of advocates and service providers in the proper use of the old and new statistics.

New York City's experiment with an updated poverty measure is an encouraging development, allowing the city to assess progress towards its own poverty reduction goal. We also agree with Dr. Levitan, who emphasized that a federal definition is essential. We look forward to working with you to modernize the assessment of poverty, and in using a more accurate measure to develop effective anti-poverty legislation.

Sincerely yours,

Deborah Weinstein
Executive Director

Updating the Gallup measure to account for changes in family income since 1990

The original research on which this update is based was undertaken more than ten years ago (Vaughan 1993, 2004).[1] It is of interest how the income levels associ-

[1] This update was completed in 2003. The author would like to thank Kathleen Short for her encouragement to undertake this work and to her and Sharon Johnson, of the Social Security

ated with the Gallup poverty measure has evolved over the ten years corresponding to the decade of the 1990's, how it compares with official poverty thresholds for the same period, and so forth. Unfortunately, the last Gallup measure was collected in 1989. Since then no consistent set of comparable measures have been undertaken. However, the retrospective relationship between the median income of four-person families, net of tax, to the Gallup poverty threshold can plausibly be extended for the years lacking observations. It was shown that the Gallup measure averaged 50 percent of the median income of four-person families, net of tax, for roughly thirty years between 1960 and 1989. Furthermore there was no obvious trend over the same period. In the six four-year periods considered in the analysis, the average value of the thresholds varied between 51.8 and 48.6 percent of the median income measure that was used. Since the income is measured annually in the Current Population Survey and the tax concept employed is reproducible in a manner consistent with the study, dollar amounts corresponding to the Gallup poverty standard, calculated at 50 percent of the median income of four-person families, are easily derived. The necessary calculations were carried out and are presented in table B–1 (see p. 8 below) for the period 1990 to 2000. The official poverty threshold for four-person families, and the before- and after-tax median income of four-person families is also given for purposes of comparison.[2]

At the beginning of the period, the Gallup standard (1990) was 129 percent of the official standard. Over the decade, it rose along with the median income of four-person families. Since there was little trend in the ratio of before-tax to after-tax income for the period, taxes do not influence the trend Gallup standard during decade. Only the base level, at the beginning of the period, is affected, lowering it by about 17 percent from a before-tax level. During the 1990's, both the before- and after-tax income of four-person families increased by a little over 50 percent. Since the official standard rose only in response to the changes in the Consumer Price Index (CPI), it rose by less, only little more than 32 percent as family income gains generally outpaced inflation during the period. Consequently, the Gallup poverty standard reached 144 percent of the official threshold by the end of the decade (1999). This underscores the principal characteristic of a socially-defined standard which responds to growth in family income that reflects increases in the general standard of living, while the official measure changes only in response to increases in the prices and remains fixed in real terms. Thus, in any period of real income growth, the official standard is bound to fall behind a social standard that tracks changes in both prices and real growth in income.

Projections beyond the present

Recently research has been conducted under the sponsorship of the Social Security Administration on projecting income of the retirement age population through 2020 in order to better understand the implications of various Social Security reform plans and their possible impact on poverty rates of the elderly (Butrica, Smith and Toder, 2002). Given that benefits under current law are indexed by growth in real wages as well as prices, they chose two methods to update poverty thresholds to the end-point of their simulations: a simple extension of the current official thresholds in real terms and updating the current thresholds by increases in wages as projected by the Social Security Actuaries. While growth in wages will not be the same as growth in total family income, before or after tax, updating by the projected rate of wage growth serves to illustrate the long range implications of updating the official poverty thresholds without taking into account increases in the standard of living.[3] After all, future wage growth is a useful indicator of the likely evolution of living standards over time and is the basic rationale behind tying Social Security benefits at retirement to previous growth in wages. Wage indexation of benefits in the Social Security program represents a policy decision that workers' benefits in

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Administration (SSA), for special tabulations of before- and after-tax income from the Current Population Survey. Michael Leonesio of SSA provided material on the rationale for wage indexing in the context of the social security program, as well as several helpful comments concerning the text. The author has also benefited from conversations with Bruce Klein, Richard Silva and the editorial assistance of Katalin Zentai and Kamilla Kovacs.

[2] The tax concept utilized to develop the estimates for the update differs slightly from the original version in that it includes State income taxes and the Earned Income Tax Credit (EITC). They account for about 3–4 percent of the before-tax median income of four-person families through out the 1990's, and taking them into account results in a corresponding proportional reduction in the Gallup poverty standard over the period.

[3] Fisher (1999:25–29) argues that the original poverty line was intended by Orshansky to be consistent with contemporary living standards and that the CNSTAT Panel's recommended update of the measure would take into account the real growth in the general population's standard of living.

retirement should reflect increases in the standard of living associated with improvements in productivity and the level of wages that occurred during their working life (Ball and Bethel 2000, pp. 8–9).[4]

In table B–2 (see below, p. 9) the Gallup poverty standard is updated from 2000 to 2020 by the projected rates of growth of real annual wages and compared to the official threshold maintained in real terms. Neither are adjusted for prices in the first two columns of the table. Thus the official threshold remains at the value it had in 2000 ($17,603); the Gallup standard begins with the value estimated for 2000 also ($25, 694) but is updated for growth in wages was projected by the Office of the Actuary (SSA 2002, table VB.1, intermediate assumptions).[5] Additional assumptions are required for the update of the Gallup standard. For example, total Federal and State income and FICA taxes and the Earned Income Tax Credit at the median income of four-person families are held constant as a percentage of total family income, real wage growth is assumed to translate directly into increases in living standards, and the translation is assumed to be equally distributed among families of different size.

However, none of these assumptions is very critical to the point to be illustrated. What the table shows is that by 2020 the social standard increases to between 1.2 and 1.3 times its level today (2000). In comparison to the official level it increases from a little less than 1.5 times the current poverty threshold for four-person families to 1.8 and 1.9 times the official standard in 2020. Thus while the official standard remains fixed in real terms, a social standard, indexed by real wage growth, increases markedly. Recall (Vaughan 2004: table 1b, p. 63) that at the beginning of the post-war period, a standard that was conceptually equivalent to the official threshold exceeded the Gallup threshold by nearly 35 percent. It then declined to the about the same level as the Gallup standard at the time of the unofficial introduction of the Orshansky thresholds in 1963. From that point onward, the poverty thresholds (introduced as official measure in 1969) consistently lagged behind the Gallup standard (see table B–2, p. 9, below). By 1990, the official threshold was about 20 percent below the level consistent with the Gallup measure. At the end of the 1990's, it had fallen further to about 30 percent below the level associated with the with the Gallup standard. By 2020, using projected wage growth to update the social standard and maintaining the official standard in real terms by updating only by estimates of changes in the Consumer Price Index, the official standard would be 46 percent below a social standard based on the Gallup level. Indexing the Gallup standard by wage growth might at first seem to result in a poverty line that is unrealistic by today's standards. However, if living standards increase as much as the wage growth is projected to increase by Social Security Actuaries over the next 15–20 years, based on history of the public's views over the 50 years since World War II, a socially defined poverty line is likely to change apace. Yes, today's standards will become outmoded. Then the official measure, if it remains fixed in real terms, will to come under increasing scrutiny as society's standards change with the continued evolution of living standards in the new century.

Changes in the real value of the social standard over time

An issue that was not dealt with in the original article concerns the increase in real income implied with the use of a socially-defined needs standard. It turns out that over the fifty years between the end of World War II and the turn of the century, the real income of those living at the "poverty level" as measured by the Gallup poverty standard, has doubled.[6] What does this imply about the standard and how is it to be interpreted? Some may suggest that those living at the Gallup pov-

[4] A with any major decision of this magnitude there was considerable discussion of the implications at the time (1977). The discussion hinged on the choice between indexation for prices and indexation of wage levels. It was realized at the time that indexation by prices implied measuring standards of living in absolute terms while wage indexing implied measuring standards of living in relative terms (Munnell 1977, pp. 52–53). Ball argues that without wage indexing, the program "would soon provide benefits that did not reflect previously attained living standards". The discussion is reminiscent of the same concerns, pro and con, that arise when updating the poverty measure is considered. See also the Report of the Consultant Panel (1976, pp. 7–8) where the issue of comparative costs of the two alternatives is discussed.

[5] Estimates pertain to the estimated growth in the annual wage in covered employment. Estimates of the Consumer Price Index (CPI) and the real wage differential are also given.

[6] The Gallup-poverty level was $1,688 in 1947 (1947 dollars, see Vaughan 2004, Table 1b, p.63) and the 1999 value of the Gallup based social standard was $24,558 (1999 dollars, Table B–1 p. 9, this study). Deflating the 1999 value of the social standard to the price level of 1947 yields a dollar value of $3,567 or about 2 times its 1947 value in real terms.

erty level are objectively much better off in terms of the quantity of good and services that they have at their disposal than they were at the middle 1940's.[7]

With a standard informed by relative incomes this is not really surprising. With the substantial economic growth experienced in the United States over the past 40 years, the quantity and variety of goods and services commanded by those living at income level implied by the Gallup standard has necessarily increased markedly. But what is the significance of such changes? The standard of living that this increase affords, and the level of material resources it entails, lies behind the common observation that the poor in the United States have a higher standard of living than many middle class families in the developing world, or even in certain dimensions of consumption, Western European countries. But what is the relevance of such an observation for understanding the phenomenon of poverty in the United States? America's poor are Americans by residence and partake, for the most part, in the expectations and aspirations of those living here, not in Africa, Asia or Latin America or other countries. In the body of the article readers are invited to imagine an urban New Yorker of 1850. Such a person "would hardly have felt deprived by not being able to afford a telephone, radio or television; as such goods did not exist, they were not part of the choice set of a member of New York's society of 140 years ago." Simply because such goods have entered the common choice set, and, along with many others, they have become an established part of people's expectations. This was considered relevant to the topic of poverty because it is also posited that "a consistent inability to meet—[typical consumption aspirations] that arises from financial constraints is likely to take a heavy toll on individuals who see themselves as [or who aspire to be], family providers" (Vaughan 2004, p.3) or otherwise see themselves as attempting to live by conventional norms. This is especially so when the shortfall is marked, such as when a person has at most only half the typical income of his society.

Recall also that it was argued that the Gallup standard may be interpreted as measuring the social costs of living in society and is defined by the material offerings of a specific time and place.[8] From this perspective, the criteria for judging what is sufficient or reasonable must be informed by the norms present in a given society at a given time. Such norms are likely to be a function of the selection of goods and services that are being consumed in that society's present. Seen in this light, the seeming contradiction between increasing standards of living and poverty is not so hard to appreciate. Many new goods and services have entered circulation in our society over time. Take consumer durables as an example. At the end of World War II television was just making its presence felt and was infrequently owned. Now the black and white TV has passed into oblivion and colored TV's are ubiquitous. Housing standards have increased markedly. In-door plumbing and central heating are nearly universal. Modalities of transportation have changed substantially with the evolution of the suburbs; and ownership of an automobile, more often than not, has become a necessary requirement for employment. With the increasing presence of women in the work place have come new expenses of transportation and childcare. These changes and a host of others have raised the objective cost subsistence in the United States. What were once luxuries have become necessities. In addition to the objective costs of subsistence there are the additional costs associated with adequate performance of key social roles. These costs lie at the core of a socially-defined needs standard. They distinguish it from a standard which reflects the changes in the objective costs of a minimal standard of living, and even more from a fixed subsistence standard, such as the official poverty threshold, which remains the same regardless of changes in the general standard of living.

By necessaries I understand not only the commodities which are indispensably necessary for the support of life, but whatever the custom of the country renders it indecent for creditable people, even of the lowest order, to be with out. A linen shirt, for example is strictly speaking, not a necessary of life. The Greek and Romans lived, I suppose, very comfortably, though they had no linen, but in the present time, through the greater part of Europe, a creditable day-labourer would be ashamed to appear in public without a linen shirt, the want of which would be supposed to denote that disgraceful degree of poverty, which, it is presumed no body can well fall into without extreme bad conduct. Custom, in the same manner, has rendered leather shoes

[7] For a discussion that focuses heavily the effects of this phenomenon but draws nearly opposite conclusions about its significance concerning poverty in the present day United States, see Rector and Johnson (2004).

[8] Adam Smith, the intellectual father of free markets, clearly understood that poverty involved a social component that was every bit as important as the material goods "necessary to support life". In his classic work on the operation of markets, **The Wealth of Nations** (1937, pp. 821–822), he comments on the distinction between necessities and luxuries, and how this distinction may vary between different countries at a given point in time. His discussion recognizes that the significance of particular commodities stems from the specific social context in which they are consumed and not only its intrinsic contribution to subsistence.

a necessary of life in England. The poorest creditable person of either sex would be ashamed to appear in public without them. In Scotland, custom has rendered them a necessary of life to the lowest order of men; but not to the same order of women, who may, without and discredit, walk about bare-footed. In France, they are necessaries neither to men nor to women; the lowest rank of both sexes appearing there publicly, without any discredit, sometime in wooden shoes, and sometime barefooted. Under necessaries therefore, I comprehend, not only those thing which nature, but those things which the established rules of decency have rendered necessary to the lowest rank of people.

In principal, considerable insight could be gained into the kinds and quantities of goods and services required to carry out these roles. How those requirements have evolved concretely over the past 50 years could be explored by examination of the patterns of consumption of specific goods and services associated with the Gallup poverty standard as revealed in the decennial consumer expenditure surveys of the period. More attempts to measure social standards in current government surveys such as was done in the Consumer Expenditure Survey in the early eighties (see Garner and de Vos 1980), and more recently in the Survey of Income and Program Participation (Garner, 2002), would be most helpful. Special attention should be given eliciting information about the resource requirements successful performance of social roles associated with marriage, family life, and parenting. Exploration of specific consumption goods central to a social standard of poverty would also be helpful. If finding a place in Federal surveys proves infeasible,[9] then reestablishment of a Gallup-like series in the private sector can, and should be, pursued.

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[9] The challenges that so-called subjective measures have faced in finding a place in the Federal survey environment has been documented by the author (see Vaughan 1996).

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Table B–1.—Comparison of median four-person family income, before- and after-tax, the "official" four-person family poverty threshold and a social standard based on 50% of the median after-tax income of four-person families, 1990–2000

[Current dollars]	Median 4-person family income			"Official" four-person standard[1]			Standard based on 50% of the after-tax median	
Year	Annual Amount[3]		After as % of	Annual amount[3]	As % of the median 4-person family income		Annual amount[4]	As % of "Official" Standard
	Before tax	After tax	Before tax		Before tax	After tax		
1990	34,321	34,321	82.8	13,359	32.2	38.9	17,161	128.5
1991	35,450	35,450	82.3	13,924	32.2	39.3	17,725	127.3
1992	36,482	36,482	82.4	14,335	32.2	39.3	18,241	127.2
1993	37,292	37,292	82.6	14,763	32.2	39.6	18,646	126.3
1994	38,785	38,785	82.5	15,141	32.2	39.0	19,392	128.1
1995	40,917	40,917	82.3	15,569	32.2	38.1	20,458	131.4
1996	42,295	42,295	82.8	16,036	32.2	37.9	21,148	131.9
1997	43,784	43,748	82.2	16,400	32.2	37.5	21,874	133.4
1998	46,414	46,414	83.1	16,660	32.2	35.9	23,207	139.3
1999	49,115	49,115	82.6	17,029	32.2	34.7	24,558	144.2
2000	51,387	51,387	82.2	17,603	32.2	34.3	25,694	146.0
Percent change:								
1990 to '94	13.4	13.0	. . .	13.3	. . .	. . .	13.0	. . .
1990 to '95	19.9	19.2	. . .	16.5	. . .	. . .	19.2	. . .
1990 to '96	23.3	23.2	. . .	20.0	. . .	. . .	23.2	. . .
1990 to '97	28.3	27.5	. . .	22.8	. . .	. . .	27.5	. . .
1990 to '98	34.8	35.2	. . .	24.7	. . .	. . .	35.2	. . .
1990 to '99	43.4	43.1	. . .	27.5	. . .	. . .	43.1	. . .
1990 to '00	50.8	49.7	. . .	31.8	. . .	. . .	49.7	. . .

'Note: The symbol ". . ." indicates not applicable.
[1] Average weighted threshold for families of size four.
[2] The median value of total family cash income, family of four. Taxes include Federal and state income and FICA taxes and the Earned Income Tax Credit as simulated by the Bureau of the Census. All estimates tabulated specifically for this study.
[3] Weighted average poverty threshold for a family of four (http:/ /www.census.gov/hhes/povertyhistpov/hstpovl.html).
[4] Calculated as 50% of the after-tax median income of four-person families as estimated in the table (see note 1).

Table B–2.—Projection of a social (Gallup level) poverty standard from 2000 to 2020 on the basis of future growth in covered wages as estimated for actuarial purposes by the Social Security Administration (intermediate assumptions)and comparison to the "official" standard for the same period

Year	Constant 2000 dollars			Social standard minus "official" standard / by the social standard X 100	"Official" poverty standard indexed by the CPI[3]	Social threshold indexed by the CPI–U[3] plus growth in real wages[1]
	Social poverty standard indexed growth in by real wages[1]	"Official" poverty standard for four-person family[2]	Ratio of the "official" to the social standard			
2000	¢$25,694	[4]$17,603	1.46	31.5	$17,603	¢$25,694
2001	26,413	17,603	1.50	33.4	18,096	27,133
2002	27,153	17,603	1.54	35.2	18,639	27,974
2003	27,832	17,603	1.58	36.8	19,105	29,345
2004	28,249	17,603	1.60	37.7	19,621	30,577
2005	28,588	17,603	1.62	38.4	20,960	31,831
2010	29,221	17,603	1.66	39.8	23,405	38,876
2015	30,864	17,603	1.75	43.0	27,133	47,527
2020	32,599	17,603	1.85	46.0	31,455	58,102
Ratio of threshold values						
2005 to 2000	1.11	1.00	. . .	. . .	1.15	1.24
2010 to 2000	1.14	1.00	. . .	. . .	1.33	1.51
2015 to 2000	1.20	1.00	. . .	. . .	1.54	1.85
2020 to 2000	1.27	1.00	. . .	. . .	1.79	2.26

(. . .)—Not applicable.

[1] Using projected growth in real wages, intermediate assumptions, as given in 2002 OASDI Trustees Report, Principal Economic Assumptions, table V.B1 (htttp:/www.ssa.gov/OACT/TR/TR02/V_economic.html).

[2] Average weighted threshold for families of size four.

[3] Indexed by the estimated increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI–U) through 2020, as given in the 2002 OASDI Trustees Report, intermediate assumptions (see note 1, this table).

[4] Starting values: Social standard estimated as 50 % of the after-tax median income for four-person families, see table B–1; the "official" poverty standard is the weighted average poverty threshold for four-person families; both as of the year 2000.

Source: Table B–1 of this paper and calculations by author.

I want to thank the Chair, Rep. Jim McDermott, and the Committee for considering this important issue. My name is Diana M. Pearce, and I am Senior Lecturer and Director of the Center for Women's Welfare at the University of Washington. For more than a decade, I have worked on developing and disseminating an alternative measure of poverty, the Self-Sufficiency Standard.

In this brief testimony, I would like to address four topics: (1) why we need a revised poverty measure, (2) the methodological and conceptual problems in the proposed National Academy of Sciences (NAS) approach, (3) the impact of using the NAS approach versus other alternative measures of poverty on both poverty rates and our understanding of poverty, and (4) recommendations for an alternative poverty measure and the difference an alternative measure can make.

Please note that the following comments are grounded in my work over the last 12 years on the Self-Sufficiency Standard, which is now found in 37 states plus the District of Columbia and used in a wide array of settings and program applications. My conclusions reflect not just my opinions, but the experience of many who have applied this poverty standard in their work.

1. Why We Need a Revised Poverty Measure

The first and most important reason that a revision of the federal poverty measure (known widely as the Federal Poverty Line, or FPL) is that ***the FPL is too low***. I will not recount the reasons it is now too low, as they have been well-detailed elsewhere, but only remind us that a measure that is too low has three serious consequences. First, because the FPL is too low, many people who do not have enough income to meet their needs are not counted as "poor". Secondly, countless assistance programs have turned to using a multiple of the poverty line to determine eligibility. For example, eligibility for the Food Stamp Program is set at 130% of the FPL and eligibility for S–CHIP (State Child Health Insurance Program) is as high

as 300% of the FPL. That is, in some states, costs are so high that families with incomes at 300% of the FPL are deemed unable to have enough to meet their children's health needs. It is an oxymoron to have an eligibility level that is three times the poverty level. Thirdly, because the FPL is too low, we have a skewed vision of poverty affecting our program and policymaking. Too many programs are focused only on getting people into employment, when in fact the great majority of families lacking adequate income according to the Self-Sufficiency Standard (80–85%) already have at least one worker in the workforce.[1]

There are other problems with the FPL that should be mentioned briefly, as they have guided efforts to revise the poverty line:

- *The FPL does not vary by place.*
- *The FPL does not, and cannot, reflect changing demographics, work patterns, and the emergence of new needs/costs,* including child care, health care, transportation and taxes.
- *The FPL does not show the impact of taxes, tax credits* (such as EITC), *or benefits* including cash (such as TANF benefits), near-cash (such as Food Stamps), and in-kind benefits (such as child care assistance, Medicaid, or housing assistance.)

2. The Methodological and Conceptual Problems in the Proposed National Academy of Sciences (NAS) Approach

While I commend Representative McDermott and others for recognizing the need to reevaluate the way in which we measure the unmet needs of American households, I believe the NAS approach does not adequately address the critiques and concerns of the FPL described above. The heart of the problem with the NAS approach is the methodology. This is most clearly seen by comparing the methodology of the FPL, the Self-Sufficiency Standard, and the NAS approach (see attached chart). Measuring poverty is a three-step process (see table on page 10). The NAS approach has problems and unintended consequences within each of the steps, which are described in order below.

Step 1: Creating the Poverty Threshold

While the FPL only specifies food, by implication it includes all other costs that were significant at the time such as housing, transportation, clothing, and miscellaneous. The Self-Sufficiency Standard explicitly includes all the costs implied in the FPL—food, housing (including utilities), transportation, miscellaneous (including clothing)—plus new costs such as health care, child care, and taxes/tax credits. In contrast, the NAS approach only includes food, shelter, clothing, and miscellaneous. *Thus, the NAS approach only creates a partial poverty threshold.*

Partial thresholds are problematic, and when misunderstood as full thresholds, are too low. Thresholds quickly have a life of their own, and the "fine print" of the methodology gets lost. Most people assume that a revised measure is comparable to the original measure, that is, it is a complete threshold, but in fact, the NAS approach is "apples" to the FPL "oranges". The NAS threshold is only a partial threshold and cannot be used on its own. However, this crucial detail gets lost very quickly.

For example, the *New York Times* editorial on July 22, 2008 entitled "Poverty's Real Measure" notes that the FPL for a family of four was only $20,444, and in the next sentence states that "The mayor raised New York's poverty ceiling to a more believable $26,138" (p. A18). Note that nothing in this statement indicates that this number is a partial threshold, or that it needs to be adjusted for costs such as health care or child care.[2]

A partial threshold is also problematic because poverty thresholds are used in many ways beyond measuring poverty with datasets. Not only are they used for eligibility, but poverty thresholds are also used as benchmarks to measure individual and program achievement, to target resources such as job training and education resources, to set minimum and living wage levels, and for many other purposes.

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[1] For more information see the Overlooked and Undercounted reports for California, Colorado, Connecticut, and Washington State, available at http://www.wowonline.org/ourprograms/fess/

[2] In fact, the NAS-type threshold calculated for New York City could be considered almost literally "half a threshold". According to the most recent available Consumer Expenditure Survey (Table B, 2005), on average housing, food and apparel and services are 49.6% of average expenditures (median expenditures were not available). Pulling out equivalent costs from the Self-Sufficiency Standard for New York City (for a variety of four-person families across the different boroughs) we find that the total of housing, food and miscellaneous [which includes clothing] ranges from 99% to 119% of the threshold cited by Mark Levitan (except in Lower Manhattan, with its very high housing costs). But note again, this is only part of the costs families have to pay.

Step 2: Calculating Household Income

In step 2, both the FPL and the Self-Sufficiency Standard simply count gross income from all sources (except refundable tax credits) to determine household income. In the NAS approach, gross income from all sources is also counted, however to determine household net income, certain expenses (actual expenditures only) are deducted from gross income (including health care and work-related expenses, such as child care and transportation).

Reducing household income with deductions is problematic, as it underestimates and constrains some costs, particularly for certain groups. By including some costs, such as housing in the threshold itself, while assigning other costs to be deducted from household income, the NAS approach "privileges" some costs over others. When an amount is allotted in the threshold to meet a basic need, such as housing, this implies that that cost is essential. Conversely, other costs not given an allotment in the threshold itself, such as health care or child care, are implicitly labeled as non-essential, as optional or extra, for there is not an amount set aside to insure that there is enough to meet this need. However, employment and its associated costs are now the norm, not the exception: 62% of two-parent families have both parents in the workforce, and 72% of single parent families have the parent in the workforce, making work-related expenses such as child care essential, not optional, for the majority of families.[3]

The "deductions" approach hides the very poverty that should be made explicit because families too poor to afford these items will not have these deductions. If a family has enough income for rent, food, clothing and miscellaneous, but not health care, they will forgo the latter, and thus may not appear to be poor income-wise, but lack health care, a basic need. For example, a family of four with income of $27,000 could spend nothing on health care; in New York City, their income would be above the NAS-based poverty threshold of $26,138. However, an equivalent family, who had an income of $29,000, but spent $3,000 on health care, would have that expenditure deducted from their income, reducing their income to $26,000, putting them under the NAS threshold. Thus the former family would have less income and no health care, yet would not be considered poor, while the latter family would have more income (or virtually the same in net income), yet have health care *and* be counted as poor.

The costs that are to be deducted from income may be capped at unrealistically low levels. For example, if the federal Child Care and Dependent Tax Credit (CCTC) caps are used to cap child care deductions, the amount a family could deduct for child care expenses may be much lower than the real cost of child care. The CCTC caps the amount for child care to $3,000 per year for one child and $6,000 for two or more children (or $250 per month for one child, and $500 for two children). Data from Self-Sufficiency Standard reports for recent years show that across a number of states the minimal cost of adequate child care ranges from $423 to $707 per month for infants in family care and from $544 to $805 for preschoolers in child care centers. Only for part-time school-age child care in one state are costs as low as the CCTC cap level ($250 to $536).[4] Note as well that capping deductions does not acknowledge the geographic variation in costs; as suggested here, child care costs vary geographically almost as much as housing costs, but low caps negate this variation.

By not including these costs as necessities, the revised poverty measure hides substantial amounts of very real poverty. Such hidden poverty affects working poor families who cannot afford these necessities, primarily families with young children who need child care and health care.

Step 3: Treatment of Taxes, Tax Credits, and Transfers

In the case of the FPL and the SSS, step 3 involves comparing the threshold determined in step 1 to the gross income determined in step 2. (Note that in the Self-Sufficiency Standard, taxes and tax credits but not benefits have been included in the "costs" calculated in Step 1). In step 3 of the NAS approach, however, net income is compared to the threshold both *before* and *after* taxes, tax credits, and transfers. *The NAS treatment of taxes, tax credits, and transfers under-estimates need and over-estimates the impact of these three factors.*

Taxes: For most people, taxes are the first cost they must pay, in the form of payroll deductions before they even see their paycheck. This means that the amount people need to meet their needs includes the amount they have to pay in taxes upfront, including federal payroll, federal income and state income tax. Mathemati-

[3] U.S. Department of Labor. Bureau of Labor Statistics. *Employment Characteristics of Families in 2007*. (page 2). Retrieved from http://www.bls.gov/news.release/pdf/famee.pdf

[4] Self-Sufficiency Standard reports, including child care costs are available at http://www.wowonline.org/ourprograms/fess/

cally as well, taxes need to be included at the "beginning" not the "end". For example, to pay the payroll tax (for Social Security and Medicare) of 7.65%, one does not need to earn just $7.65 for each $100 (earned to cover other costs), but rather $108.28 (7.65% of $108.28 = $8.28) to fully cover the payroll tax.

The NAS approach only accounts for federal taxes. State income taxes should be included as well as federal income taxes. If a household is earning a Self-Sufficiency Standard level of income, state income taxes range from.6% to over 6% of income in states with taxes; the average state tax burden is about 3.6%.[5] Highly variable across states, the state income tax should be included in a poverty measure.

Tax Credits (Refundable): In contrast to taxes, tax credits are last to be received, overwhelmingly (99%, according to one survey) received as lump sums when people file their taxes, early in the following year.[6] Moreover, most people do not use their tax credits to pay for daily expenses, such as food or housing. While some costs can be "bought" with credit, such as putting groceries on a credit card, most people according to studies (1) do not know how much they will be getting because of uneven income and (2) use their tax refund/credit for lump sum purchases.[7] The other most common uses are to make major purchases, such as a car, pay tuition, and pay first and last month's rent, or to pay off debts.[8] The most common debt, however, is medical debt, not usually voluntarily taken on in anticipation of a refund. In other words, tax credits are used as "forced savings." Therefore continuing to assume that these credits are available to meet daily costs in the year in which they are earned needs to be reexamined.

Transfers and Benefits: There is wide consensus that any revised poverty measure should reflect the impact of benefits such as child care or heath care assistance (Medicaid, S–CHIP) on family resources. The Self-Sufficiency Standard accounts for child care and health care costs in the first step of determining the poverty threshold, and therefore the impact of receiving assistance can be modeled as lowering the threshold wages needed, or as increasing the "income adequacy" of a given wage. However, the NAS approach does not have any means of showing their lack of ability to meet these needs. Since families receiving these benefits are by definition too poor to secure these resources at market rates, they will not be able to deduct the cost of these expenditures from their income (Step 2). At the same time, the NAS approach only shows the effect of food stamps and housing assistance, because only food and housing are included in the (partial) threshold. Benefits that reduce the cost of health care or work-related expenses, such as child care assistance or transportation cannot be credited against the costs of housing.

3. The Impact of Using the NAS Approach versus other Alternative Measures of Poverty on both Poverty Rates and Understanding of Poverty

Because of the methodology used, the NAS approach creates both lower thresholds, and overestimates available resources, resulting in underestimating the number of people who are below poverty. Using the Self-Sufficiency Standard, which is based on a full rather than partial poverty threshold, results in a very different poverty rate and count of the poor.

For example the count of the poor increases from 18.9% according to the FPL to 23% according to the NAS approach (in the NYC application), a 22% increase in the number of people counted as poor in New York City. However, the count of the poor increases from 7–10% according to the FPL to 20–30% using the Self-Sufficiency Standard in five select states (shown in the table below), which is a two-three fold increase in the number of people with inadequate income. (Note that the differences are probably even greater, as the studies done with the Self-Sufficiency Standard excluded the elderly and disabled, as the Standard assumes all income is earned.)

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[5] This percentage is calculated for 20 states with Self-Sufficiency Standards and with state income taxes.

[6] Of federal returns filed in 2001, only 137,685 taxpayers reported having received advanced EITC payments out of more than 16 million families with children receiving the EITC. Numbers cited by John Wancheck of the Center on Budget and Policy Priorities, based on data reported in the IRS Income Tax Section, Monthly Operational Review of Earned Income Credit.

[7] Romich, J. L. & Weisner, T. (2000). *How families view and use the EITC: The case for lump-sum delivery*. Paper delivered at Northwestern University, Joint Center for Poverty Research Conference.

[8] Some workers may be unaware of the advanced payment option, and others may have employers who do not participate. Also, research has shown that families make financial decisions based on receipt of the EITC (together with tax refunds) when they file their taxes early in the following year. Romich, J. L. & Weisner, T. (2000). *How families view and use the EITC: The case for lump-sum delivery*. Paper delivered at Northwestern University, Joint Center for Poverty Research Conference.

Comparison of the Federal Poverty Level to the CEO Measure in New York and Self-Sufficency Standard in Select States

	NAS Measure	The Self-Sufficiency Standard in Select States				
	New York City	California	Colorado	Connecticut	New Jersey	Washington
Percent of Households with Inadequate Income According to Alternative Measures of Poverty	23%	30.3%	20%	19%	20.4%	20.7%
Percent of Households Below the Federal Poverty Level (FPL)	18.9%	10.6%	7.2%	6.8%	6.8%	8.3%
Ratio of Alternative Measures to the FPL	1.22	2.86	2.78	2.79	3.00	2.49

Note that the NAS approach not only results in a reduced poverty rate and poverty count than when the Self-Sufficiency Standard "bare bones" budgets are used, but also results in a very different picture of poverty. Not only are approximately four-fifths of households in these states "working poor," but the Standard tells us that their income (almost all of it wages) is insufficient to meet the costs of working, meaning that they are forgoing meeting some needs such as health care and child care, to which the NAS thresholds and poverty rate analysis is "blind."

4. Recommendations for an Alternative Poverty Measure and the Difference an Alternative Measure Can Make

I would like to make the following recommendations to the subcommittee, based on experience with the Self-Sufficiency Standard and the analysis above:

1. Incorporate in the legislation that the Modern Poverty Measure consider developments in terms of data availability and the experience of alternative approaches since the 1995 NAS report when devising methodology for this revision of the poverty measure. That is, the legislation should require that the Modern Poverty Measure be able to reflect changing needs, changing demographics, and changing data availability.

Furthermore, there is no allowance, implied or otherwise, in any of these poverty standards, for debt, savings, or large capital purchases. Although the size and scope of tax credits has increased since the development of the NAS approach, so has the problem of debt and predatory lending. Certainly it would be unbalanced to assume that tax credits are available to meet daily expenses while not allowing for necessary non-daily expenses for which these credits are largely being used. In other words, if transfers are to be included in a poverty measure, debts and large purchases should also be included. Alternatively, neither tax credits nor debts and large purchases should be included in assessing resources available to families. This is not a simple issue, and deserves careful research.

2. Although not addressed on in the hearing testimony, we recommend that sufficient resources be devoted to developing the Decent Living Standard as a realistic, but minimal, full measure of income adequacy. Given the inadequacies of the FPL, the Self-Sufficiency Standard was developed to meet the need for a complete, but modern standard of income adequacy. Now calculated in 37 states and the District of Columbia, this type of measure has been used by approximately 2000 organizations, and increasingly has been adopted by workforce councils, state labor and welfare departments, in prison/parole systems, and many more settings across the nation. Given this high level of demand, and its evident usefulness, developing an official equivalent measure would contribute greatly to both measuring need and focusing policies and programs on true poverty reduction.

The NAS approach proposes a means to more accurately measure poverty. *Although the NAS approach does measure poverty, it is not designed to function as a tool*. On the other hand, a Decent Living Standard can be—and in the case of the Self-Sufficiency Standard is being—used not only for measuring poverty but also as a policy tool. The Self-Sufficiency Standard is widely used by advocates, employers, policy makers, and service providers, to improve career counseling services, target employment and training programs towards higher wage jobs. The Self-Sufficiency Standard is also used to evaluate and design public policies with the goal of helping families reach self-sufficiency. Because it provides fully comprehensive and transparent thresholds, the Self-Sufficiency Standard is a more versatile and useful tool

in battling poverty because it is more than a measure. Indeed, the Self-Sufficiency Standard has gained wide usage in three-quarters of our nation's states.[9]

The Self-Sufficiency Standard

Below I will briefly outline a possible poverty measure alternative, the Self-Sufficiency Standard. I will explain how it addresses the issues raised above, and conclude with a discussion of the difference the Standard can and has already made in our understanding of poverty, as well as being a more useful tool to combat poverty. I developed this measure in the early 1990s, and since 1996, it has been calculated in 37 states and the District of Columbia. State reports may be found at http://www.wowonline.org/ourprograms/fess/

A Brief Description of The Self-Sufficiency Standard and How it is Calculated

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

- Assumes that all adults in the household work full-time and, thus, have work-related expenses such as taxes, transportation and child care, when children are present.
- Assumes the employer provides employee and dependents' health insurance and uses average premiums and out-of-pocket expenses.
- Distinguishes by family size and type. The Standard accounts for differing costs not only by family size and composition (as does the official poverty measure), but also by the ages of children.
- Varies costs geographically and does not assume there is a universal "equivalency" scale based on the size of place or urban versus rural areas.

Seven Categories of Expenses

The Standard measures seven categories of expenses using scholarly and credible federal and state data sources. The Standard does not rely on the cost of a single item, such as food, to establish a ratio against which to calculate the total family budget. The Self-Sufficiency Standard is based on the cost of each basic need by county—food, housing, health care, child care, transportation and taxes—determined independently using official and otherwise publicly available data. We add 10 percent of these costs for miscellaneous necessary expenses such as clothing, phone, and household goods.

The Self-Sufficiency Standard includes all taxes, including state and local sales and use taxes, payroll tax, federal, state and local income taxes, along with the Earned Income Tax Credit, Child and Dependent Care Tax Credit and Child Tax Credit. This is a minimal amount and produces a bare bones budget that does not take into account entertainment, savings, or education. It does not include funds for one time purchases (e.g. furniture, appliances or a car). The Standard does not build in costs related to savings for a security deposit, down payment, emergencies, retirement, college or debt repayment that can be essential in today's economy.

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[9] The Self-Sufficiency Standard is widely used by a variety of organizations and agencies across the states. For example, online Self-Sufficiency Calculators, used by counselors and the public, have been developed for Illinois, New York, Pennsylvania, Washington State, the San Francisco Bay Area in California, and Washington, DC. In 1999, Sonoma County, California was the first county in the country to adopt the Standard as its formal measure of self-sufficiency and benchmark for measuring success of welfare to work programs. In Connecticut, the Standard has been adopted at the state level since 1998 and has been used in planning state-supported job training, placement and employment retention programs, and has been distributed to all state agencies that counsel individuals who are seeking education, training, or employment. The Standard has been used in a number of states (including New York, New Jersey, and Hawaii) to advocate for higher wages through Living Wage Ordinances and in negotiating labor union agreements. Workforce Development Boards in Pennsylvania, Washington, and Oregon are using the Standard as a case management tool. In Colorado, the Colorado Center on Law and Policy successfully lobbied the Eastern Region Workforce Board to officially adopt the Standard to determine eligibility for intensive and training services. When the Oklahoma DHS proposed large increases in the child care co-payments, the Oklahoma Community Action Project used analysis based on the Standard in a report that resulted in a rescinding of the proposed increases. More information on these and other examples on how the Standard is and can be used are available in the Self-Sufficiency Standard reports, http://www.wowonline.org/ourprograms/fess/

Cost Components of the Self-Sufficiency Standard

Costs for the Self-Sufficiency Standard are based on data such as HUD's Fair Market Rent, the USDA Low-Cost Food Plan, and sub-state market rates for child care published by state welfare agencies. Transportation costs are figured using data from state and local transportation departments, the National Association of Insurance Commissioners, the American Automobile Association, and the IRS mileage allowance. Since families cannot be truly self-sufficient without health insurance, employer-sponsored coverage is assumed as the norm for full-time workers. For the family's health insurance premium and out-of-pocket costs, we rely largely on data from the Medical Expenditure Panel Survey (MEPS).[10]

What Diference Does Using a Measure Such as the Self-Sufficiency Standard Make?

- Using the Standard results in a substantially larger number of households who lack adequate income. Because it is a realistic measure of income adequacy, it results in a substantially larger number of households who lack adequate income to meet their needs. In several state studies, using coded Census data, we have found that about one-fifth to almost one-third of non-elderly, non-disabled households lack adequate income. Specifically in California, about 30% of working-age households have incomes below the Standard, while in Washington, Colorado, New Jersey and Connecticut it is approximately one-fifth. This is almost three times as many households as are officially counted as poor—using the FPL—in each of these states.[11] (Note that when the proportion of households lacking minimally adequate income reaches one in five, or more as in California, then it is clear that this is a systemic problem, that the issues are widespread and not simply attributable to individual issues, such as lack of education, etc.)
- *Using the Standard provides a different picture of who is poor in each of these states.* Although there is much variation by state, several themes emerge. Those who are below the Standard, while disproportionately people of color, are racially and ethnically diverse. Families maintained by women alone, those who are Hispanic, and those with young children, are especially likely to have incomes below the Standard. Yet the majority of households are married couple households, and in most states, the majority are White. Most important, in every state, 80% or more of households with incomes below the Standard have at least one worker in them, and in roughly half of these, there is a full-time year-round worker. There is not space here to provide detailed pictures, but because it controls for cost of living differences (such as rural vs. urban counties in a given state), it reveals within-state geographic patterns and concentrations of those households with inadequate income.
- *Using the Standard provides the means for understanding which costs are contributing the most to family budget constraints, as well as which programs are helping families make ends meet.* The Standard can, and is, being used with clients to help them determine how much income they need, and thus what training/education or jobs will meet their self-sufficiency needs. The Standard can, and is, being used by program providers and policymakers to evaluate the impact of their services, and/or to model the impact on family budgets of specific services and work supports, such as child care assistance or tax credits.

For references to studies and reports cited above, or further information about the Standard, how it is calculated, and how it can be used, please contact the author, Dr. Diana M. Pearce at pearce@u.washington.edu or (206) 616–2850, or the Center for Women's Welfare, School of Social Work, University of Washington, 4101 15th Avenue NE, Seattle WA 98105.

[10] A complete discussion of data sources and methodology for the Self-Sufficiency Standard can be found on WOW's Website at: http://www.wowonline.org/ourprograms/fess/ and clicking the report for any state.

[11] To view the Standard's state Demographic reports, see the Overlooked and Undercounted reports for California, Colorado, Connecticut, and Washington State, available at http://www.wowonline.org/ourprograms/fess/

Comparison of Three Poverty Standards

	Federal Poverty Measure—**FPL**	Self-Sufficiency Standard—**SSS**	National Academy of Sciences—**NAS**
Step 1			
Calculate	Food—1/3	Food	Food
Threshold	All other Costs—2/3		
	Implied included:		
	Housing	Housing	Housing
	Clothing (included in Miscellaneous)	Clothing (included in Miscellaneous)	Clothing
	Miscellaneous	Miscellaneous	Miscellaneous
	Transportation	Transportation	
	Not included:		
	Health care	Health care	
	Child Care	Child Care	
	Taxes	Taxes & Tax Credits	
Step 2			
Calculate Income	Gross Income from all Sources	Gross Income from all Sources	Gross Income from all Sources
			Deduct Actual Costs of:
			Transportation
			Health Care
			Child Care
			= Net Income
Step 3			
Determine Poverty Status	Compare (gross) income to Threshold	Compare (gross) income to Threshold	Compare (net) income to Threshold
			For pre-tax/transfer pov. status
			Add taxes, tax credits and transfers for post tax/transfer poverty status
	ues with FPL	**SSS Responses**	**Critique of NAS**
	Too low	Full standard, averages 50–80% of area median income	Partial Standard, misunderstood as full standard (too low)

Comparison of Three Poverty Standards—Continued

	Federal Poverty Measure—**FPL**	Self-Sufficiency Standard—**SSS**	National Academy of Sciences—**NAS**
	No geographic variation	Geographic variation, by county, and/or city/ borough (as data permits)	Some geographic variation for some costs; however, not detailed enough to show true geographic variation in cost
	Does not reflect new costs, changing demographics	Includes new costs of employment (now the norm), child care, transportation, taxes	Privileges some costs (clothing and etc.) while devaluing others, such as childcare and other work-related expenses
	Does not show impact of credits & benefits	Shows impact of taxes, credits, & transfers	Implies tax credits used for daily expenses

Dear Representative McDermott:

Thank you for the opportunity to submit written testimony on the Measuring American Poverty Act proposed by U.S. Representative Jim McDermott. Crittenton Women's Union is a non-profit organization in Boston, MA that transforms the course of low-income women's lives so that they may attain economic independence and create better futures for themselves and their families. CWU provides safe housing, caring supports, education and training programs, and innovative new programmatic designs based on research and client experience. Through our advocacy efforts, we work to advance policy changes that address the root causes of the barriers low-income women face to achieving economic self-sufficiency.

Since 1998, CWU has been one of 36 states to calculate the Family Economic Self-Sufficiency Standard (FESS), a realistic and useful measure of the income families must earn before they can thrive independent of government supports. Recently updated in 2006, MassFESS (www.liveworkthrive.org) is a comprehensive analysis of what it costs to support a family in Massachusetts with no public supports. Taking into account the cost of housing, childcare, healthcare, food, transportation, miscellaneous essential expenses as well as taxes and tax credits (EITC, Child Care Tax Credit, and Child Tax Credit), MassFESS indicates that a single parent family with a preschool aged child and a school aged child in Massachusetts would need to have an annual income of $48,513 (median for the state), nearly three times the federal poverty level.

The Federal Poverty Level (FPL), the current standard for classifying families living in poverty and for extending benefits to these families, does not provide a complete picture of the needs of low-income families. The FPL is based on families' food costs alone; alternatively, FESS calculates a range of basic needs for 70 different family types, giving an accurate description of what families must earn to be self-sufficient. Program participants from CWU believe that it is crucial that so-called "poverty standards" reflect the varied composition of households, since the costs of children and extended family are a consistent barrier to reaching self-sufficiency. Given rising costs and stagnant wages for low-skilled work, many families are also supporting adult children and extended family members who are not even included in FESS or the Modern Poverty Measure.

CWU applauds Subcommittee Chairman Jim McDermott for his draft legislation the Measuring American Poverty Act. This proposed legislation is a first step toward revising the inadequate standards used to determine eligibility for government supports. Like FESS, by taking into account the cost of food, clothing, necessary expenses, income assistance, family types, and geographical location, the proposed Modern Poverty Measure would modernize the approach the government takes to determining eligibility for support programs. Thus, it would ensure an inclusive and reasonable standard that can accurately gauge the level and severity of poverty in the United States and make sure that families receive adequate supports throughout their journey to self-sufficiency.

Thank you for your consideration of this critical legislation. Should you have any questions, please contact Ruth Liberman, Vice President of Public Policy at (617) 259–2936 or *rliberman@liveworkthrive.org*

Sincerely,

Elisabeth D. Babcock, MCRP, PhD
President and CEO

Chairman McDermott and Members of the Subcommittee:

On behalf of First 5 Marin Children and Families Commission, I am writing in support of the chairman's proposal to establish a Modern Poverty Measure, and particularly the portion which calls for "*geographic cost variation*."

First 5 Marin is a local government agency serving young children and their families in Marin County, California, and we are extremely concerned for the economic well-being of those striving to survive on very low-incomes and especially those who are caring for children in severe poverty conditions.

Marin County was recently identified* as the most expensive county in our state, and it is likely one of the most expensive counties in the country. As such, the financial struggle that low-income working families face in our county serves as a distinct example of the severe inadequacy of the current measurement of poverty offered by the Federal Poverty Level (FPL) for those living in high-cost states or high-cost metropolitan areas.

1. **You Can't be Self-Sufficient Living in Poverty**

According to the *2008 California Family Economic Self-Sufficiency Standard*,* a family of four in the *most affordable county in California*, Kern County, would require a household income more than two times the FPL of $21,200 to make ends meet ($44,686).

For those in poverty and for the working poor, the FPL offers a false measure of a survival wage; a family living at the FPL does not have enough income to pay for even the most basic necessities. The FPL does not reflect a living wage or a self-sufficient wage; it is a desperation wage.

Under the Self-Sufficiency Standard, the average California family with two adults, a preschooler and a school-age child **needs to earn $52,889, to meet basic life costs** (housing, food, childcare, transportation, healthcare and other basic needs).

The monumental gap between official poverty standards and self-sufficiency standards presents us with one of the most important challenges of our day: what measures can be adopted immediately and what measures can be pursued over the longer-term to significantly improve the economic well-being of all Americans living in poverty?

2. **High Cost Region in a High Cost State**

In Marin County, the Self-Sufficiency Standard for the same family of four is **$73,576.** Marin County is the highest cost county in the State of California. (To reach this salary, both adults would need full-time jobs that paid at least $17.42 per hour; or, one adult would need an hourly wage of $34.84 or a monthly income of $6,131.) In this county, the value of a poverty wage is . . . distinctly invaluable.

After paying the fair market rent of $1592 per month (according to the U.S. Dept. of Housing and Urban Development) for a two-bedroom apartment, the family of four living at the federal Poverty Level (of $21,200) would have $2,116 remaining . . . **for the entire year**. Ignoring all other potential expenses, it is hard to believe that four people could even buy enough calories to survive. *(HUD calculates this fair market rent for the entire San Francisco metropolitan area; the costs in Marin County are likely much higher.)*

But many, many Marin families are living well below the self-sufficiency wage of $73,576. We may only imagine the choices they are forced to make regarding food, housing, childcare and healthcare. And when a family's very survival is at stake, how can parents even hope to afford life-enriching opportunities for their children . . . much less adequate healthcare and quality preschool? This question should be a question that consumes all of us every day.

3. **Measuring Poverty Standards, Achieving Subsistence Standards**

The Federal Poverty Level does not recognize poverty conditions for a family of four until income falls to $21,200. As such, the FPL is not a measure of a minimally adequate income—it is indeed a measure of inadequacy.

On behalf of all working families, but especially those in high-cost areas, we strongly support the chairman's proposal to create a "modern poverty measure" which would set the poverty threshold at a percentage of current median personal or family expenditures—not just on food, but also on shelter, clothing and utilities.

In addition, we urge the committee to fully examine and account for extreme geographic cost variations. Self-sufficiency in California is significantly beyond the Federal Poverty Level. Not only is the average wage needed for self-sufficiency in this state more than $30,000 over the federal poverty level ($52,889 compared to $21,200), but there is almost a $30,000 variation between counties in the state ($44,686 for Kern County compared to $73,576 in Marin County).

We applaud your efforts to improve the measurement of poverty in this country. We cannot hope to adequately support families attempting to survive poverty wages until we more clearly understand the breadth and depth of their financial crises.

While our ultimate goal for working families should be self-sufficiency and economic well-being, our immediate goal must be, at the very least, subsistence. How could we do anything less?

Sincerely,

Amy L. Reisch
Executive Director
First 5 Marin

Cc: Rep. Lynn Woolsey
Senator Barbara Boxer
Senator Dianne Feinstein
State Senator Carole Migden
State Assemblyman Jared Huffman

* In May 2008, the **Insight Center for Community Economic Development** issued *"The 2008 California Family Economic Self-Sufficiency Standard."* The self-sufficiency standard "measures how much income working individuals and families need to pay for their basic needs—including housing, food, child care, health care, transportation and other basic needs. *The Insight Center for Community Economic Development is at www.insightcced.org.*

Chairman McDermott, Congressman Weller, Congressman Camp, and members of the committee, thank you for the opportunity to submit testimony on establishing a modern poverty measure.

The mission of the Michigan Department of Human Services (MDHS) is to assist children, families and vulnerable adults to be safe, stable and self-supporting. We recognize that dealing with poverty is fundamental to our mission, and have begun the process of creating a statewide network to link local poverty reduction efforts to statewide policy initiatives in order to enhance our ability to impact the causes and conditions of poverty in our state. This network, the Voices for Action Network, will be launched as part of Michigan's first statewide summit on poverty November 13, 2008. It is essential that we ensure that all Michigan citizens have access to economic opportunity, and that we all work together to end poverty. All of us are affected by poverty and all of us have a role to play in relieving its effects and reducing the number of our neighbors blocked from full participation in our economic transformation. In order to measure the effectiveness of our poverty reduction efforts, we need a common sense poverty measure that includes impact of public programs, and the real costs of work and basic needs. There is broad consensus on the deficiencies of our current poverty measure, and I will not belabor that point but simply join in the chorus that it is woefully inadequate and must be changed.

State human services agencies have a key role to play in reducing the effects of poverty by administering an array of federal and state programs aimed at assisting individuals and families. However, because of the limitations of the current poverty measure, many of our efforts to assist families are invisible and have no effect on the poverty rate in our state. This leaves us vulnerable to the perception that public programs aimed at poverty have failed because they don't reduce poverty rates even though there is no way to include the impact of these programs in the current poverty measure. For example, our state is committed to reaching out in creative ways to make sure that every person who is eligible for food stamps is actually receiving them. We are exceptional as a state in the percentage of eligible persons actually receiving food assistance, and we believe it makes a real difference in the degree to which poverty affects families. Similarly, Michigan is exceptional in that every community has created a plan to end homelessness, and we are adjusting policies to support these efforts including providing more housing assistance to people in

shelters. These efforts make a real difference but can not affect the poverty measure because housing assistance and food assistance are not considered resources in the current poverty measure.

As many have testified, including Rebecca Blank and Sheldon Danziger from the University of Michigan's National Poverty Center, it is likely that including food stamps and housing assistance in a poverty measure would actually show the effect public assistance programs have on the real experience of families living in poverty. This is a common sense approach and gives citizens a clear way to assess the impact of public assistance. Similarly, other public policies aimed at poverty such as the Earned Income Tax Credit and the Child Tax Credit are linked to quantifiable reductions in poverty for the lowest income levels when included in a poverty measure.

The cliché that we have "lost the War on Poverty" is based on a circular argument. We don't include in our measure the impacts of major poverty policies and then don't see those impacts when we look at the measure over time. This creates a "catch-22" in which states struggle to show that our programs help even while the main economic indicator specifically excludes the impact of many of these programs. This gap between government programs and impact on poverty has widened over time as fewer and fewer dollars are spent on cash assistance.

In addition to the inclusion of resources actually available to families, actual costs incurred by families that are unavoidable in order to generate income are essential components to a common sense poverty measure. Child care, transportation, and health care costs are not optional for many families; income is dependent on these factors. Therefore, a common sense poverty measure should include these factors as subsistence factors. Including these costs will assist in identifing issues that drive the poverty rate up, and design targeted policies to respond. For example, in the New York experience, their new poverty measure uncovered a higher rate of elderly poverty because of the impact of skyrocketing health care costs among this population leaving more seniors less able to meet basic needs. Similarly, measuring the real costs associated with work will reveal the impact of rising gas prices on working poor families and help us focus our attention on the large segment of people in poverty who are actively engaged in work but can not meet a basic level of subsistence.

Ideally, information in the poverty measure would also be linked to key indicators of access to pathways out of poverty such as access to quality early childhood programs, education, and family support services to ensure that families are equipped to prevent inter-generational poverty. The ability to identify changes in costs related to maintaining work and access to opportunity as part of a poverty measure would provide a consistent, reliable means to identify impact on poverty over time generated by policy initiatives such as Michigan's Jobs, Education and Training (JET) program which aims to link families to opportunities for long-term self-sufficiency.

Finally, it is essential that responsibility for the poverty measure move from the Office of Management and Budget to a federal statistical agency. No other economic indicator is similarly entangled. The need for a reliable common sense poverty measure must outweigh political concerns related to fears of a sudden "increase" in poverty due to a switch to a meaningful measure. There are solutions to ease this concern including standardizing the measure, anchoring the new measure to the current measure for a period of time, and putting processes in place to regularly adjust the measure. Again, testimony from experts such as Sheldon Danziger from the National Poverty Center indicates that the overall poverty rate may not change significantly using a common sense measure, but that different population subgroup rates might, as has been the experience in New York as they have used a poverty measure with updated resource thresholds. This would give states a better sense of which groups are most effected by changing costs related to work and equip states with more reliable and consistent data on the effect of poverty reduction policies over time. In the long run, we are far better off dealing with the reality and the implications of these trends for public policies than avoiding the tough choices about how to best reduce poverty. Designing effective policies to ensure that working poor families have the supports they need to move beyond poverty is essential, not only to these families but for all of us who look forward to the benefits of a transforming economy.

Thank you for the opportunity to submit this testimony.

Re: Income Security and Family Support Advisory #ISF–17

To the Honorable Congressman Jim McDermott Chairman of the Subcommittee on Income Security and Family Support of the Committee on Ways and Means:

My name is Kim Aponte and I am a case manager of a township welfare program. I am writing to comment on the hearing to establish a modern measure of poverty. While I agree that a more modern measure is needed given how outdated our current model is, I am hoping that consumption as opposed to strictly income will be used as a more appropriate gauge. As we are all aware of the many factors aside from strictly income which are relevant in establishing an individual's ability to provide for their basic needs, specifically food, housing, childcare, transportation and healthcare.

In addition, I have two other concerns. One concern is poverty measures versus financial eligibility criteria and standards of social welfare programs, including state and federal programs. Many of our current program's financial qualification standards (including ours in our General Assistance program within a township government) are so low as to cause the majority of individuals falling under slightly higher poverty thresholds to fall through the cracks. In those cases there are *no* social service programs to assist them. Our country's current economical status and subsequent job losses has caused record numbers of individual's to apply for financial assistance benefit programs. Due to outdated financial qualification standards and lack of programs in general, record numbers of individuals and families are being turned away.

Notwithstanding, fiscal irresponsibility is causing many state governments to drastically reduce social welfare monies and/or programs at a time when they are needed more than ever. Why is it that social welfare programs are the first to receive cuts usually followed by education? Why aren't higher income people being taxed at higher rates to assist in managing our economy?

This leads me to my final question. Once a more accurate indicator of poverty is established what changes will be implemented to benefit those in poverty? The truth of the matter as I see it lies with the priorities of many of the individual policy makers. Helping the poor has never realistically been a priority in our country. The poor do not fund campaigns nor do they have a large lobbying presence. The poor also focusing exclusively on surviving do not inundate our government officials with letters, faxes or emails regarding a lack of programs to assist them. And the social service agencies serving these clients are too fragmented, they are unwilling to become more cohesive, to unionize because so many are fighting for the same funding sources

I have seen time and time again policy makers moving mountains to fund special interest projects, as well as having the ability to put aside political wrangling to get a bill passed in record time when it suits their agenda.

Once again I am reminded of a poem by poet Tarapodo Rai titled "The Poverty Line." I would ask that you might read it and share it with others in your subcommittee. For while it is noteworthy to try to continue to define poverty, and issue more modern poverty guidelines, will more accurate statistics really cause our current or future administrations to make poverty a priority, to start creating, supporting, and funding anti-poverty measures and programs to help all of its citizens in need?

Sincerely,

Kim Aponte
Kim Aponte
146 Valley Dr.
Bolingbrook, Il. 60440
Kaponte44@aol.com

Dear Chairman McDermott:

On behalf of the Leadership Conference on Civil Rights (LCCR), the nation's oldest, largest, and most diverse civil and human rights coalition with nearly 200 member organizations, we are writing in support of the Measuring American Poverty Act of 2008, a significant effort to create a more accurate measure of poverty in America.

The current measure, which was devised in the mid 1960s and based on data from the mid 1950s, is flawed in several ways. Notably, it fails to count public benefits such as refundable tax credits, housing assistance, and food stamps as income. In addition, the current measure's assessment of a poor family's necessary expenses is extremely outdated. Only food costs are included in the antiquated measure now in use; the increasing costs of housing, heat, transportation, child care and out of pocket medical expenses are left out.

The Measuring American Poverty Act of 2008 includes elements that are in our view essential to modernizing the assessment of poverty. They include:

- Counting expenditures more accurately
- Including certain public benefits as income
- Adjusting the calculation of poverty thresholds for regional differences in costs
- A means of showing the anti-poverty effects of benefits programs by comparing pre- and post-tax and transfer income
- A clear statement that the proposed changes are not to modify eligibility or amount of assistance for public benefits
- A provision to periodically re-assess the validity of the revised poverty measure

There are a number of important reasons to improve the measure of poverty. It will be critical to be able to accurately gauge whether the steps the nation takes to reduce it are working. A more accurate poverty measure will also give us greater understanding of the needs of population subgroups. The current standard may understate the hardships of the elderly in making ends meet by failing to take into account their high out-of-pocket medical costs. A new standard may help us to learn if poverty is more prevalent, or deeper, among certain demographic groups (race/ethnicity, age, rural/urban residence) because they are less likely to receive benefits.

LCCR is committed to setting a national goal to cut poverty in half in ten years. We are a founding partner of *Half in Ten: From Poverty to Prosperity*, a new campaign run jointly by ACORN, the Center for American Progress, the Coalition on Human Needs and LCCR. Among the initiatives sought by the campaign are substantial improvements in the Child Tax Credit and Earned Income Tax Credit. Under the current poverty measure, success in achieving these important improvements will not result in any reduction in the official poverty rate because refundable tax credits are not counted as income. Similarly, LCCR supports increases in Food Stamp benefits, but when those occur, the poverty rate will not change because food stamps are not counted as income. The change proposed in your legislation will allow a more accurate assessment of whether benefit increases have the desired effect, and further, whether certain population groups are helped more or less than others.

We note that whatever its imperfections, the current poverty measure has been very important in allowing us to see trends over time. We urge great care in making the transition from the old to the new standard, so that researchers remain able to evaluate trends. We also urge the Census Bureau to include, as part of its mission, the education of advocates and service providers in the proper use of the old and new statistics.

We look forward to working with you to modernize the assessment of poverty, and in using a more accurate measure to develop effective anti-poverty legislation. If you have any questions, please contact Nancy Zirkin at 202/263–2880 or Corrine Yu, LCCR Senior Counsel, 202/466–5670, regarding this or any issue.

Sincerely,

Wade Henderson
President & CEO
Nancy Zirkin
Executive Vice President / VP of Public Policy

Dear Chairman McDermott:

On behalf of the Center for American Progress Action Fund (CACFP), I am writing to thank you for your efforts to develop an improved measure of poverty and to spur the development of a "Decent Living Standard" measure.

The Center for American Progress Action Fund believes that the United States should commit itself to a goal of cutting poverty in half in ten years. We have joined with a set of partners in a campaign, Half in Ten, www.halfinten.org, seeking to build support for the goal of significant poverty reduction, and advocating policies that could accomplish that goal. We believe that a national goal of reducing poverty should be a key part of the domestic and economic policy agenda for Congress and the President, as well as for states and localities. Sustained persistent poverty reduces the life chances of those growing up in poverty, and it hurts our economy. Research commissioned for the Center for American Progress estimates that the cost to the U.S. economy of children growing up in persistent poverty is in the range

of $500 billion a year, about 4 percent of our gross domestic product.[1] Addressing poverty is essential to making progress toward the goals of promoting equal opportunity and expanding mobility in the United States, as well as enhancing our nation's global competitiveness.

In order to effectively address poverty, it is important to have a good measure of it. The current official federal poverty measure is deficient in many ways. It still provides valuable information about the extent and severity of deprivation, but it is seriously flawed. I discussed a number of its deficiencies, and urged an improved measure, in testimony before this subcommittee last year.[2] Among key concerns, the current measure uses poverty thresholds that were established in the early 1960s and have only been adjusted for inflation since that time; fails to count certain resources, such as tax credits and near-cash benefits, that are available to help meet family needs; fails to consider tax liabilities, work expenses, and medical expenses that reduce the amount of income available to meet basic needs; and fails to recognize substantial geographic variations in living costs.

The proposed Measuring American Poverty Act of 2008 would take a significant step forward by directing the development of a "Modern Poverty Measure" correcting a number of the flaws in the current measure. The draft bill would draw from the recommendations of the National Academy of Sciences' Panel on Poverty and Family Assistance described in **Measuring Poverty: A New Approach** (National Research Council, 1995). We agree that this set of recommendations should be the starting point for a new measure. Among the key improvements, the proposed bill would require the development of a poverty measure in which:

- Poverty thresholds are based on considering the actual costs that families pay to meet a set of basic needs;
- Tax credits and near-cash benefits that are available to meet those needs are considered;
- Tax liabilities, child care costs and other work expenses, and out of pocket medical costs are all adjusted for;
- Geographical adjustments are made in recognition of variations in living costs.

Each of these improvements, as well as a set of more technical adjustments, would assist in having a better measure of poverty.

An improved measure would also give a far better picture of the effectiveness of key public policies in addressing poverty. For example, under the current measure, since tax liabilities and credits are not considered, an expansion of the Earned Income Tax Credit has no direct effect on the measure of poverty. Similarly, an expansion or reduction in child care subsidies has no direct effect, since no consideration is given to family child care expenses. It is important to have a poverty measure that reflects the impacts of policies that affect family incomes, and the proposed bill would do so.

We agree with the proposed approach of developing a Modern Poverty Measure, while leaving in place the Historical Measure, both for statistical purposes, and to ensure that no change would automatically occur for programs that presently determine individual eligibility or benefits or that allocate federal funds using the current poverty measure or a multiple of it. Rather, any usage of the Modern Poverty Measure for such purposes should appropriately be considered over time, on a case-by-case basis, as programs are reauthorized or otherwise are revised.

We recognize that even with an improved measure of poverty, we will only have a better picture of one aspect of individual and family economic well-being. Thus, we commend your decision to charge the National Academy of Sciences with developing a method for calculating a Decent Living Standard threshold. We believe this is needed because even with an improved measure, the poverty line does not reflect the millions of Americans with incomes above poverty but who are still struggling to make ends meet and falling short of the income needed for a reasonably decent life. Ultimately, our nation should have good measures of both poverty and of a decent living standard, and the proposed bill would take a crucial step toward doing so.

We also commend the draft bill's inclusion of a National Academy of Sciences study to develop a medical care risk measure. The proposed measure would provide data not just about the number of uninsured Americans, but also of the number who are underinsured.

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

[2] Testimony of Mark Greenberg, Subcommittee on Income Security and Family Support,

Finally, we encourage you to consider including several additional measures of economic well-being for which regular statistical reporting should occur. In particular, international poverty comparisons are often based on a "relative" poverty measure, looking at the share of individuals or families with incomes below a level such as 50 percent or 60 percent of median income. Such a measure is significant because instead of looking at whether a family can afford a limited set of basic needs, it focuses on the share of families that are living far from the social mainstream. It would be desirable for the Federal Government to begin regularly collecting, reporting, and analyzing such data, and to promote research to better understand the consequences of being in and growing up in relative poverty

In addition, the nation would benefit from the development and regularly reporting of measures of assets and asset poverty. Wealth disparities in the United States are substantially greater than income disparities. One study estimated that in 2001, about 37.5 percent of U.S. households were "asset poor," meaning they did not have enough liquid assets to live above the poverty line for three months.[3] We would benefit from better data about the extent, nature and consequences of asset poverty.

Thank you for your interest in these issues, for developing the draft bill, and for advancing efforts to develop an improved poverty measure and a measure of a decent living standard for the United States.

Sincerely yours,

Mark Greenberg
Director, Poverty and Prosperity Program

Mr. Chairman, members of the Subcommittee, I am pleased to submit testimony to the Subcommittee on Income Security and Family Support of the Ways and Means Committee and applaud Chairman McDermott's leadership in the movement to development a poverty measure that reflects the reality of poverty today. I am Roger A Clay, Jr., President of the Insight Center for Community Economic Development (formerly NEDLC). The Insight Center is a 39-year old national research, consulting, and legal organization dedicated to building economic health and opportunity in vulnerable communities throughout the nation. We partner with a diverse range of colleagues to develop innovative strategies and programs that result in systemic change and help people become, and remain, economically secure.

The Insight Center strongly supports the creation of an alternative poverty measure such as the Modern Poverty Measure called for in Representative McDermott's draft proposal of the Measuring American Poverty Act of 2008. We would like to specifically encourage that the bill, when introduced:

- **Include the cost of essential basic goods such as child care, health care, and transportation in the calculation of the Modern Poverty Measure**—In California, as well as throughout the country, child care costs are consistently one of the highest costs in family budgets. Expensive health care costs, particularly for seniors, and rising gas prices, are also significantly impacting families' budgets.
- **Include multiple family sizes and compositions**—In order to create effective public policy, such as setting client eligibility for social service programs, a measure that includes multiple family types and compositions will most accurately reflect the needs of low-income people.
- **Include localized data**—Due to the wide variation in the cost of goods within states (e.g. the cost of housing for a one-bedroom apartment in California ranges from $612 per month in Tulare county to $1,808 per month in Marin county).*
- **Include data reflecting costs faced by seniors**—The consumption patterns for seniors differs from that of families, especially given the increased need for health care.

It is significant both to recognize the effect of receiving public support on a families' economic security, as the proposed Modern Poverty Measure does, as well as having a measure of the income families need to meet their basic *needs without public or private supports.* The Self-Sufficiency Standard and Elder Economic Security

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[3] Robert Haveman and Edward N. Wolff, "The Concept and Measurement of Asset Poverty: Levels, Trends and Composition for the U.S., 1983–2001," *Journal of Economic Inequality* 2 (2): August 2004.

* Information based on the United States Department of Housing and Urban Development (HUD) Fair Market Rent and National Low Income Housing Coalition data included in the California Family Economic Self-Sufficiency Standard (2008).

Standard™ Index (Elder Index) provide that measure by calculating the income families and retired seniors need to meet their basic needs by family composition and county of residence. The Self-Sufficiency Standard and Elder Index are powerful tools that policymakers, grant makers, advocates, educational institutions, and service providers around the country are using to develop programs and policies that have and continue to lead low-income people toward economic security. What follows is information about the Self-Sufficiency Standard and Elder Economic Security Standard™ Index and how they are used to effectively address the needs the of working families and retired adults.

The Insight Center is a state partner of the national organization, Washington D.C.-based Wider Opportunities for Women (WOW), as a part of their Family Economic Self-Sufficiency Project (FESS). Our statewide coalition, Californians for Economic Security (CFES), is comprised of a diverse network of over 400 service providers, workforce agencies, educators, advocates, grassroots groups, women's organizations, community colleges and immigrant organizations. The mission of the project is to advance policies and programs that build economic security for families, seniors, and the communities in which they live.

Policy makers and the public are increasingly asking why so many Americans come up short as they struggle to make ends meet. To answer that question and identify strategies to help these families, WOW—in partnership with four organizations including the Insight Center—launched the FESS (Family Economic Self-Sufficiency) Project in the mid 90's. During this period, WOW piloted a new geographically-based measure of economic security, the Self-Sufficiency Standard,† to reflect the true costs of living for working families that is based on today's economic realities. Based on publicly available federal, state, and local data sources including the Department of Housing and Urban Development (HUD) Fair Market Rent and the United States Department of Agriculture (USDA) Low-Cost Food Plan, the Self-Sufficiency Standard is a measure of the income families of different compositions need to meet basic needs such as housing, food, health care, child care, transportation, and other necessary goods in a given county without public or private assistance. The Self-Sufficiency Standard has been developed and is utilized in 35 states and the District of Columbia. It has been drawn on by states and national organizations and think tanks‡ in their efforts to establish a more relevant and credible measure to use in making policy and program decisions.

Recently, WOW and the Gerontology Institute at the University of Massachusetts-Boston developed an income adequacy measure for retired seniors: the Elder Standard™ index§, that will be in computed for the entire country by 2012. Based on this national methodology, the UCLA Center for Health Policy Research, in partnership with the Insight Center, calculated and released the California Elder Economic Security Standard? Index (Elder Index) this past February. Like the Self-Sufficiency Standard, the Elder Index is a measure of the income retired seniors need to meet basic needs and is based on publicly available federal, state, and local data. The Elder Index also reflects the actual consumption patterns of older adults and is the *only* measure of its kind in the country.

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

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

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† The Self-Sufficiency Standard was developed by Dr. Diana Pearce of the University of Washington who at the time was Director of the Women and Poverty project at WOW.

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

§ In the past three years, we partnered with the Gerontology Institute of the University of Massachusetts/Boston to develop the Elder Economic Security Standard™ index that takes account of differences in health and housing status for retired persons aged 65 and over.

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

Why is the Federal Poverty Level (FPL) Inadequate?

The inability of the official federal poverty measure to give a realistic picture of what it takes to make a living in today's society has been well documented. We are pleased that the Committee held the hearing to draw attention to the subject. The Insight Center is particularly concerned about the following deficiencies inherent in the current federal poverty level (FPL):

The measure:

- Is based on the cost of a single item: food. It does not consider other costs such as housing, child care, transportation, and it uses the false assumption that food represents one-third of a family's budget.**
- Is computed nationally, and thus fails to capture the wide range of housing and other cost differentials across the country;
- Uses the implicit demographic model of the two-parent family with a stay-at-home wife. Today, the likely scenario is that both parents are working.
- Does not distinguish between those families in which the adults are employed and those in which the adults are not employed.
- Does not recognize the impact of care giving for children and does not take into account the age of children in a family.
- Assumes that if the family has one adult household member, that member does not work. In 2004, 83.9 percent of single fathers and 72 percent of single mothers were in the labor force.††
- Does not vary by seniors' age, health, or life circumstances.

The Self-Sufficiency Standard: An Alternative to the FPL

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

The Self-Sufficiency Standard in California:

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

Seven Categories of Expenses

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

** The findings of the Self-Sufficiency Standard suggest that, on average, food costs represent between 10 and 19 percent of the budget for one adult, a pre-schooler and an infant—not 33% as the federal poverty line assumes.

†† Employment Characteristics of Families in 2004, U.S. Bureau of Labor Statistics. Available at: http://www.bls.gov/news.release/archives/famee_06092005.pdf

The Self-Sufficiency Standard nets out all taxes, including state and local sales and use taxes, payroll tax, federal, state and local income taxes, along with the Earned Income Tax Credit, Child and Dependent Care Tax Credit and Child Tax Credit. After all taxes and basic needs are accounted for, we add 10 percent for miscellaneous expenses such as clothing, phone, and household goods. These miscellaneous expenses reflect a minimal amount for a bare bones budget that does not take into account entertainment, a vacation or eating out. It does not include funds for one time purchases (e.g. furniture, appliances or a car). The Standard does not build in costs related to savings for a security deposit, down payment, emergencies, retirement, college or debt repayment that can be essential in today's economy.

Cost Components of the Self-Sufficiency Standard

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

The Real Cost of Living in One County:

For each state, county-by-county tables with 156 different family types show the cost of each basic budget item and the hourly, monthly and annual wage needed to achieve self-sufficiency. On the following page is a table on the following page is for Alameda County, where Representative and Committee on Ways and Means Member Stark serves. In 2008, the State of California Self-Sufficiency Standard was $58,854 for a family of one parent, one infant and one preschooler, **more than triple** the official poverty threshold of $17,600 for the same family.

California Family Economic Self-Sufficiency Standard for Four Family Types (2008)
Alameda County, California

Monthly Costs	One Adult	One Adult & One Pre-Schooler	One Adult, One Preschooler & One School Age Child	Two Adults & One Preschooler & One School Age Child
Housing	1027	1216	1216	1216
Child Care	0	859	1283	1283
Food	290	438	656	903
Transportation	116	116	116	232
Health Care	104	258	270	333
Miscellaneous	154	289	390	397
Taxes	363	622	899	757
Earned Income Tax Credit (-)	0	0	0	0
Child Care Tax Credit (-)	0	(50)	(100)	(100)
Child Tax Credit (-)	0	(83)	(167)	(167)

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

California Family Economic Self-Sufficiency Standard for Four Family Types (2008)—Continued
Alameda County, California

Self-Sufficiency Wage -Hourly	**$11.66**	**$20.82**	**$24.83**	**$13.79 (per adult)**
-Monthly	**$2,052**	**$3,664**	**$4,370**	**$4,854**
-Annual	**$23,240**	**$43,974**	**$52.442**	**$58,251**

Coming Up Short

The Self-Sufficiency Standard helps illustrate the critical nature of federal programs under the jurisdiction of this committee, and others, as work supports—publicly funded income support and services that help fill the gap between a low wages and a level of self-sufficiency. In an examination of work supports in ten communities for a parent, one infant and one preschooler,[§§] WOW found that the wages of people leaving welfare covered only 30 percent of the Self-Sufficiency Standard. A minimum wage job at $5.15 per hour brought the level to 34 percent. Even the recent increase in the minimum wage to $5.85 will not bridge the gap with the skyrocketing costs of gasoline and food. On average across the communities, a single parent would have to work three full time minimum wage jobs at a time to meet his/her family's minimal basic needs.

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

Today, more than 2,000 local and state agencies and a variety of organizations are part of WOW's national Family Economic Self-Sufficiency and Elder Economic Secuity Initiative (EESI) networks. FESS and EESI partners include elected officials, workforce development boards, women's commissions, community action agencies, child and senior advocates, job training programs, welfare rights groups, and state fiscal policy organizations. They use the Self-Sufficiency Standard and Elder Index frameworks to design, conduct, and advocate for programs and policies that move low-income families and seniors toward economic independence.

California: Legislation and Implementation

In California and in many other states across the country, we have found that our state-specific Self-Sufficiency Standard is an invaluable tool because of the county specific nature of the information. Over the past decade, Californians for Family Economic Self-Sufficiency has worked to institutionalize the Self-Sufficiency Standard in public policies, administrative actions and programs across the state and across a variety of issue areas. Our efforts have resulted in the following policy and programmatic initiatives, among others.

- **Use of Self-Sufficiency Standard in State and Local Legislative Action**

In 2003, Californians for Family Economic Self-Sufficiency worked with leaders in the California State legislature to pass Senate Joint Resolution 15. This resolution urges the President and the Congress to begin a process to better calculate the federal poverty level, and to use a self-sufficiency index to calculate poverty, including geographical costs of living.

In 2004, the San Francisco Board of Supervisors passed a resolution making family economic self-sufficiency a goal for the City.

In 2008, Los Angeles City Councilmember Richard Alarcón introduced a motion calling for the development of a "self-sufficiency index" for the City of Los Angeles to reflect the regional cost of living, including health care, food, housing, child care, transportation and other basic necessities.

- **Use of Self-Sufficiency Standard by Workforce Investment Boards**

At the local level, we have partnered with the Workforce Investment Boards of Sacramento, Long Beach, Pasadena, San Francisco, Santa Cruz, Contra Costa, Mendocino, San Bernardino, and Oakland to expand their eligibility criteria for receiving intensive case management and training services, so that their eligibility income levels are closer to the Self-Sufficiency Standard. By using a percentage of the Self-Sufficiency measure, these Workforce Investment Boards allow low-wage workers to access training; they also help their clients to set family-sustaining goals and to understand the impact of their education and training decisions.

Local Workforce Investment Boards also use the Self-Sufficiency Standard as a planning tool in policy and programmatic decisions. For example, the Self-Sufficiency Standard has helped the Sacramento Employment and Training Agency

(SETA) and the San Bernardino Workforce Investment Boards to determine which industries with good wages are growing in their regions. They are then able to direct their clients and public resources toward those industries.

- **Use of the Self-Sufficiency Standard in Policies and Programs to Help Clients Move Toward Economic Security**

United Way of the Bay Area has adopted the Self-Sufficiency Standard as a tool to prioritize and measure the effectiveness of its own funding strategies. One group of their grantees was asked to track client progress toward self-sufficiency, as well as other services, and training being provided. With this information, they were able to analyze which programs were most effective at moving families out of poverty.

Chabot Community College in Hayward and Berkeley City College use the Self-Sufficiency Standard with students who are receiving TANF to help them find works supports while in school and to measure progress their students' towards self-sufficiency over time.

Opportunity Junction (formerly OPTIC)—a non-profit organization which provides training programs for occupations in the IT industry for low-income workers—uses the Self-Sufficiency Standard as a benchmarking tool with their in-coming students to determine how close their students are to self-sufficiency before and after participating in the agency's job training and placement program.

Lastly, Mission Hiring Hall in San Francisco has incorporated the Self-Sufficiency Standard into a program funded by the San Francisco Mayor's Office of Community Development, which combines family support and employment training to serve an entire family, not just the jobseeker.

All of these examples illustrate how an alternative, more realistic cost of living index enables policymakers, agency directors, and program operators focus their efforts and resources toward moving families out of poverty and toward economic self-sufficiency.

Developing a Measure of Income Adequacy for Seniors

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

Like policies and programs for working families, much of current policy and program design for low-income elders is based upon federal poverty thresholds. In the case of seniors, the threshold is even lower than that designed for working families because the U.S. Department of Agriculture calculations assume that older adults have lower caloric requirements than younger adults. As a result, the official U.S. poverty thresholds are lower for adults 65 and older than for younger adults.***

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

The Elder StandardT index:

- Measures basic living expenses for seniors (aged 65 and older) in the community (not in institutions, such as skilled nursing facilities or assisted living facilities).
- Measures costs for senior households to live independently (vs. living in intergenerational households).
- Includes Medicare because seniors qualify for and receive it based on age, not income eligibility, making it nearly a universal program.
- Models costs for retired elders, who no longer face costs of working, such as payroll taxes and commuting to work.

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

With 3.5 million people over the age of 65, California has the largest older adult population in the nation, and this population is expected to grow by 172% over the

next 40 years. The California Elder Economic Security Initiative—a diverse network of public agencies, health and aging research centers, senior service providers, legislators, and advocacy groups and foundations managed by the National Economic Development and Law Center—plans to use the Elder Standard™ index to help this burgeoning population age in place with dignity.

Specifically, the Elder Standard™ index will help our statewide coalition to:

- Provide important new information to illustrate the basic costs seniors face and how their financial security is affected when their life circumstances change
- Serve as an educational and advocacy tool for elders, their children and caregivers, as well as for people nearing retirement
- Provide a foundation for developing a state policy agenda and a platform for engaging in national advocacy
- Provide a framework for analyzing the impacts of local, state, and federal public policies and policy proposals
- Serve as a financial counseling tool for those working with elders in need of income supports and additional skill sets, and
- Enable service providers, foundations, and public agencies evaluate the impact of their programs and services for seniors.

Already, some local Area Agencies on Aging intend to use the California Elder Standard in their own strategic area plans as they prepare for the needs of retiring baby boomers in their local communities

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

The California Elder Economic Security StandardT Index, Alameda County (2008)

Monthly Expenses for Selected Household Types

Monthly Expenses/Monthly and Yearly Totals	Elder Person	Elder Couple		
	Owner w/o Mortgage	Fair Market Rent 1BR	Owner w/o Mortgage	Fair Market Rent 1BR
Housing	$426	$1,055	$426	$1,055
Food	$302	$302	$557	$557
Transportation (Private Auto)	$202	$202	$323	$323
Health Care (Good Health)	$293	$293	$586	$586
Miscellaneous @ 20 percent	$244	$244	$378	$378
Elder Standard Per Month	**$1,467**	**$2,096**	**$2,270**	**$2,899**
Elder Standard Per Year	**$17,602**	**$25,153**	**$27,237**	**$34,788**

According to the Elder Standard™ index, a single elder homeowner without a mortgage and in good health needs at least $17,602 per year in Alameda County just to meet basic expenses. Three out of ten retired elders rely solely on Social Security. For this group of seniors, the average annual Social Security payment ($12,642 in 2007) provides only 72 percent of what a one-person elder homeowner without a mortgage needs and only 50 percent of the income needed by an elder renter ($25,153). Economic security is even further out of reach for women as 46 percent of all elderly women relied on Social Security for more than 90 percent of their income in 2004. With a federal poverty level of $10,400, many elders do not qualify for important low-income supports which could assist in close the income gap illustrated by the Elder Standard™ index.

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

Conclusion

Particularly in high cost states like California, thousands of low-wage workers and retired seniors have incomes too high to quality for benefits based on the federal poverty line; yet their wages or retirement income are too low to cover basic necessities for themselves and their children.

We salute Congressman McDermott for taking on the challenge of raising the issue of the inadequacy of the current federal poverty level. As a country, we can not shy away from facing the facts of what it costs to live in the United States today. Although, in the short run, some will find it uncomfortable to acknowledge that more people are struggling to meet their daily costs of living, in the long term a new measure will lay the basis of sound policy and program development for the future. The incorporation of the Self-Sufficiency Standard in a wide range of policy, program, and direct service implementation in a critical mass of states, including California, reflects the fact that states and local governments are succeeding in using an alternative to the federal measure.

Section 1150B of Congressman McDermott's bill includes many of the basic principles used in both the Self-Sufficiency Standard and Elder Index. We encourage the Federal Government to develop both a tool and a framework to guide federal policy that reflects a higher, more accurate measure of economic security at all stages of life, for multiple family sizes and compositions, and also for geographic regions across the nation.

We stand ready with Wider Opportunities for Women and the Family Economic Self-Sufficiency (FESS) and Elder Economic Security Standard™ Index state partners to work with you to develop such a measure.

Dear Representative McDermott:

I am writing to provide information relevant to your efforts to update the poverty measure that the Federal Government uses. As you know, the current federal poverty guidelines are based on a methodology designed in the early 1960's, using data from the 1950's. While adoption the measure was a major advance at the time, it is now serious out of date and flawed.

We have been working for the past year on a new approach to measuring income security for older adults, the Elder Economic Security Standard Index (Elder Index). Originally developed by Wider Opportunities for Women and the University of Massachusetts-Boston, the Elder Index provides an empirically-driven way to identify the basic income needed by elders that varies by county, health status, and living arrangement. The attached document shows how we have implemented the Elder Index in California together with the Insight Center for Community Economic Development. It is critical that any poverty measure take into account the different balance of expenses through the life-cycle, which makes the Elder Index an excellent model.

Section 1150B in your bill includes many of the basic principles used in the Elder Index and its companion, the Family Economic Self-Sufficiency Standard. I encourage you to build upon the work of these existing measures in your bill.

If you need any additional information about the Elder Index please feel free to contact me at 310–794–0910 or email swallace@ucla.edu

Sincerely,

Steven P. Wallace, Ph.D.
Professor, UCLA School of Public Health
Associate Director, UCLA Center for Health Policy Research

The National Senior Citizens Law Center (NSCLC) has, for over 35 years, been actively engaged in legal advocacy to promote the independence and well-being of low-income elderly individuals and people with disabilities. NSCLC focuses on the two most fundamental issues facing the aging and disability communities: assuring adequate income to meet basic needs and having access to quality health care.

We strongly support the proposal by Rep. McDermott to establish a Modern Poverty Measure and the companion provision calling for study of the concept of a decent living standard threshold. The traditional Federal Poverty Level has become increasingly inadequate to meet the demands of a society and an economy which are significantly different from the mid-twentieth century for which it was designed. Regional disparities have become more pronounced and people spend their money in significantly different ways than they did a half century ago. In addition to estab-

lishing different regional standards, consideration should also be given to establishing a separate standard for measuring poverty among the elderly. This is important in light of the constantly growing out-of-pocket medical costs for older Americans. New York City Mayor Michael Bloomberg's representative before the Subcommittee, Mark Levitan, in his testimony provided significant evidence of how today's Federal Poverty Level (FPL) is especially inadequate in measuring poverty among those over age 65. The measure developed by the City reveals a poverty rate among the elderly twice the rate shown by the official FPL. Also, while the FPL shows a poverty rate among the elderly both in New York City and nationwide which is slightly lower than the average for all age groups, the New York City measure demonstrates a poverty rate among the elderly (32%) which is significantly higher than for any other age group. Given the inadequate savings rates of those approaching retirement age, this is a problem which can only be expected to grow in the near future. It is thus important that we have a reliable measure of poverty among the elderly if we are to have well designed programs to address the need.

Although most of the emphasis seems to be placed on the measurement of poverty, we believe that the proposal to study the development of a decent living standard threshold is at least as important. While it is important to eliminate poverty, we cannot declare victory by raising people to the verge of poverty. We need an agreed upon standard for income adequacy, i.e., a level of income sufficient to provide a modest standard of economic security such that people need not fear being thrown into poverty by the next unanticipated expense. For that reason we strongly support the proposed study called for in Sect. 1150B of the proposed Act.

We also want to call your attention to the Elder Economic Security Initiative, which has now been launched in five states, California, Illinois, Massachusetts, Pennsylvania and Wisconsin. This effort is being coordinated nationally by Wider Opportunities for Women (WOW) and has been led here in California by the Insight Center for Community Economic Development in consultation with a wide array of senior advocacy groups including NSCLC. It provides, on the basis of research by the UCLA Center for Health Policy Research, a county by county breakdown of what is required for older people in different living situations to meet their basic needs. This is useful, not only as a measure of what we as a society should be striving for, but also as a potential planning tool for those who have not yet reached retirement age. It provides a reality check of what they will need after they retire and can provide an incentive to start saving more money for their retirement. We suggest that any study of a decent living standard make use of the work that has been done here in California and in the other states participating in the Elder Economic Security Initiative.

The United Way of the Bay Area (UWBA) is pleased to submit comments on the proposed creation of the Modern Poverty Measure to the Subcommittee on Income and Family Support. UWBA is dedicated to improving the lives of children, families and the community in the Bay Area including the counties of Alameda, Contra Costa, Marin, Napa, Solano, San Francisco, and San Mateo. We work with many business and community leaders, nonprofit organizations, and government agencies to address major Bay Area issues.

UWBA was one of the first funders in California to utilize the California Self Sufficiency Standard in grantmaking. The Self-Sufficiency Standard is a measure of the basic cost of living calculated on a county by county basis (produced by the Insight Center for Community Economic Development and Wider Opportunities for Women). UWBA decided to use the standard because of the inadequacies of the Federal Poverty Line in measuring the economic needs of families throughout our high-cost Northern California Region.

UWBA strongly supports the creation of an alternative poverty line, such as the Modern Poverty Measure called for in Representative Jim McDermott's draft proposal of The Measuring American Poverty Act. We would like to specifically encourage that the bill, when introduced, include the following:

- **Localization of Data below the State Level:** Because the Federal Poverty Line is the same all over the country, it ignores the realities that different cities/states have different costs of living, and therefore different needs for low income families. Under the current poverty line, the basic cost of living in San Francisco or Manhattan would be equal to the cost of living in Idaho or South Dakota.

- **Data on Demographic, Geographic and Other Sub Groups of Families:** In order to create public policy that accurately addresses the needs of low income people, this type of data is necessary.
- **Inclusion of Childcare as a Cost Measurement (Sec. 1150A Sub.B Sub.1):** In our experience of using the California Self Sufficiency Standard, we have seen that *child care is consistently one of the highest costs in family budgets.* However, the proposed Modern Poverty Measure appears to only include the costs of food, clothing and shelter.
- **Inclusion of Multiple Family Sizes:** The implementation of the measure should ensure that multiple family sizes are calculated, particularly single parent households. This is important in order to utilize this measure as a client eligibility criteria for social service programs.

The United Way of the Bay Area also recommends that the Subcommittee consider using the Family Self Sufficiency Standard and Elder Economic Security Index Standards (Produced by Wider Opportunities for Women) as models to include the cost for younger families as well as those over the age of 65 (see www.wowonline.org).

In September of 2004, United Way of the Bay Area published a report entitled *The Bottom Line: Setting the Real Standard for Bay Area Working Families*. In that report, we found that *1 in 4 Bay Area families have incomes too low to make ends meet* (http://www.uwba.org/helplink/reports/BottomLine.pdf). We produced and released this report to show just how significant the issue of accurately measuring poverty is, and how severe the conditions are for low-wage working people in our region. UWBA appreciates the opportunity to offer our comments to the Subcommittee in regards to this issue, and we look forward to a continued dialogue on poverty in our communities. It is our hope that this bill will serve as a building block for future policy efforts to address the needs of working families throughout the country.

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