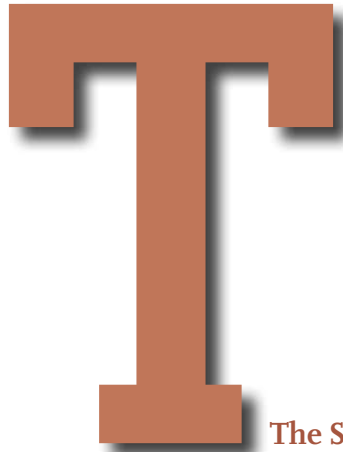


# The Future of U.S. Poverty Measurement



BY CHRISTOPHER WIMER, BARBARA BERGMANN,  
DAVID BETSON, JOHN CODER, AND DAVID B. GRUSKY



**The Supplemental Poverty Measure (SPM), as described by Rebecca Blank in this issue, is a critical turning point in poverty measurement in the United States. It is an impressive achievement and the culmination of decades of hard work by Dr. Blank and many others. The purpose of our article is to suggest that this important work might be enhanced through a few further revisions to our poverty measurement system.**

Although there are many ways in which poverty measurement could be improved, we argue below that the three most important revisions are (a) to update our poverty and hardship measures more frequently, (b) to build a national system for measuring poverty at the city and local levels, and (c) to assess poverty in ways that better reflect whether minimum standards of health care and child care are being met. We review each of these three suggestions in turn.

### **Frequent Updating**

The SPM is clearly a historic improvement in our protocol for measuring poverty, but it will likely be reported with troublingly long delays. For example, the 2010 poverty statistics only became available in the fall of 2011, a lag that renders those statistics a bit of economic history rather than anything that could induce short-term adjustments in our economic or labor market policy. There are good reasons why such delays have been and will likely continue to be built into our reporting system. As noted in Rebecca Blank's article in this issue, there are formidable data requirements behind the SPM's assessment of income and expenses, and such data are not currently available on a monthly basis.

Because poverty data are reported with a long lag, they do not typically inform short-run economic policy decisions, and instead they are used mainly to assess the need for long-run reforms in poverty policy. If we should find, for example, that poverty rates continue to run extremely high over the next several years, it might be taken as a signal that our labor market institutions are underdelivering and are in need of such long-run reform.

It's important to continue to use poverty data for the purpose of deciding whether major institutional reforms of this sort are warranted. But poverty data should also inform our more routine and short-run economic decisions. If poverty data were reported frequently (e.g., monthly), it would be possible to add them to the body of evidence upon which short-run economic policy decisions are based. We could use them to assist in deciding

whether more stimulus monies should be directed toward the poor, whether tax policy should be more or less progressive, or whether monetary policy should be more or less restrictive.

We recognize that not everyone agrees that economic policy should take the poverty rate, or indeed *any* distributional considerations, heavily into account. However, even those who hold to such a view should still want more-frequent poverty measurements, as they're additionally necessary for the more limited purpose of establishing budget allocations for nutritional assistance and other ameliorative programs (e.g., Temporary Assistance for Needy Families). The latter, more-limited policy decisions are surely best made in the presence of current information about the poverty rate. We can't make good decisions about the budget for various assistance programs without knowing how many people are *currently* in poverty and may need such assistance.

If the need for regular reporting is accordingly clear-cut, that's not to imply that such a need is easily met. The long-run solution is to collect the data underlying the SPM on a more regular basis. To do so would be costly, but it's important to open up a discussion about whether those costs, formidable though they are, are anything but a fraction of the costs of making major policy decisions with limited information.

We appreciate that any major changes in data collection aren't likely in the near term. In the meantime, however, it's useful to experiment with ways of exploiting existing data for the purpose of creating a more frequently updated series. With John Coder of Sentier Research, Barbara Bergmann of American University, and David Betson of the University of Notre Dame, the Stanford Center for the Study of Poverty and Inequality has sought to build such a time series by making statistical inferences about the monthly information that's missing and then using those inferences to estimate the poverty rate.

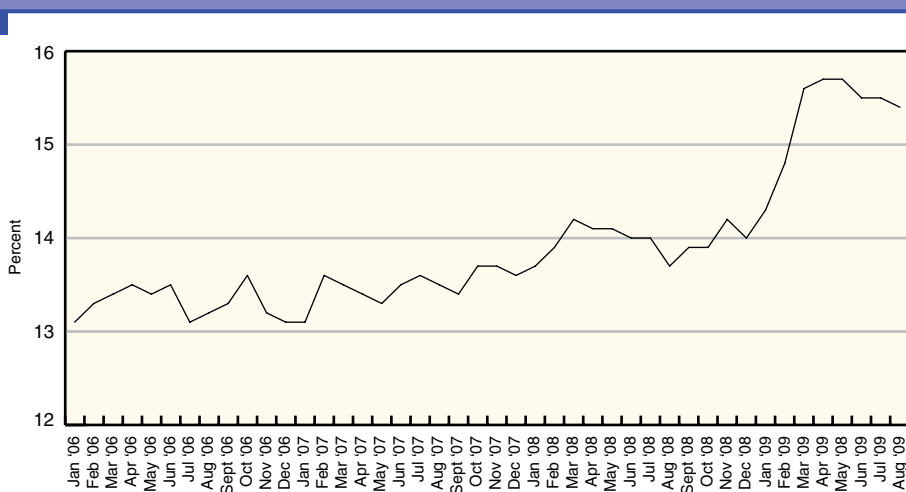
The starting point for such efforts is monthly data on family earnings from the Current Population Survey (CPS). Based on unemployment data in the CPS, we can simulate weekly unemployment benefits using (a) counts of the total unemployment insurance weeks compensated by month and (b) weekly unemployment benefit amounts payable by states. We can then add in other sources of income that might also change based on changes in employment. For instance, if a family member loses his or her job, the family might then bring in a boarder to rent a room, an income source that's not captured in the monthly CPS. We can estimate such "other income" by statistically matching each member of our monthly sample to a family in the March CPS (where all sources of other income are measured). Once that match is made, we can assign to our sample families the "other income" secured by the matched families, thus allowing us to estimate their total income. We have so far implemented this approach with the official measure of poverty but could, in principle, apply it to the SPM as well.

The results of this effort are presented in Figure 1. As shown here, the poverty series moves just as one would expect, with poverty increasing substantially after the beginning of the recession in December of 2007. If this series is accurate, monthly poverty rates were reaching nearly 16 percent as of 2009. In interpreting this result, it's important to bear in mind that the monthly series is measuring short-term deprivation, in particular the deprivation that arises when monthly earnings fall below one-twelfth of the annual poverty threshold. Although it's important to monitor such short-term deprivation, some of the families who count as poor under this monthly measure will compensate for the earnings shortfall in the balance of the year and end up with annual incomes that surpass the poverty threshold.

It should also be borne in mind that the results presented in Figure 1 are wholly experimental. We are dissatisfied with

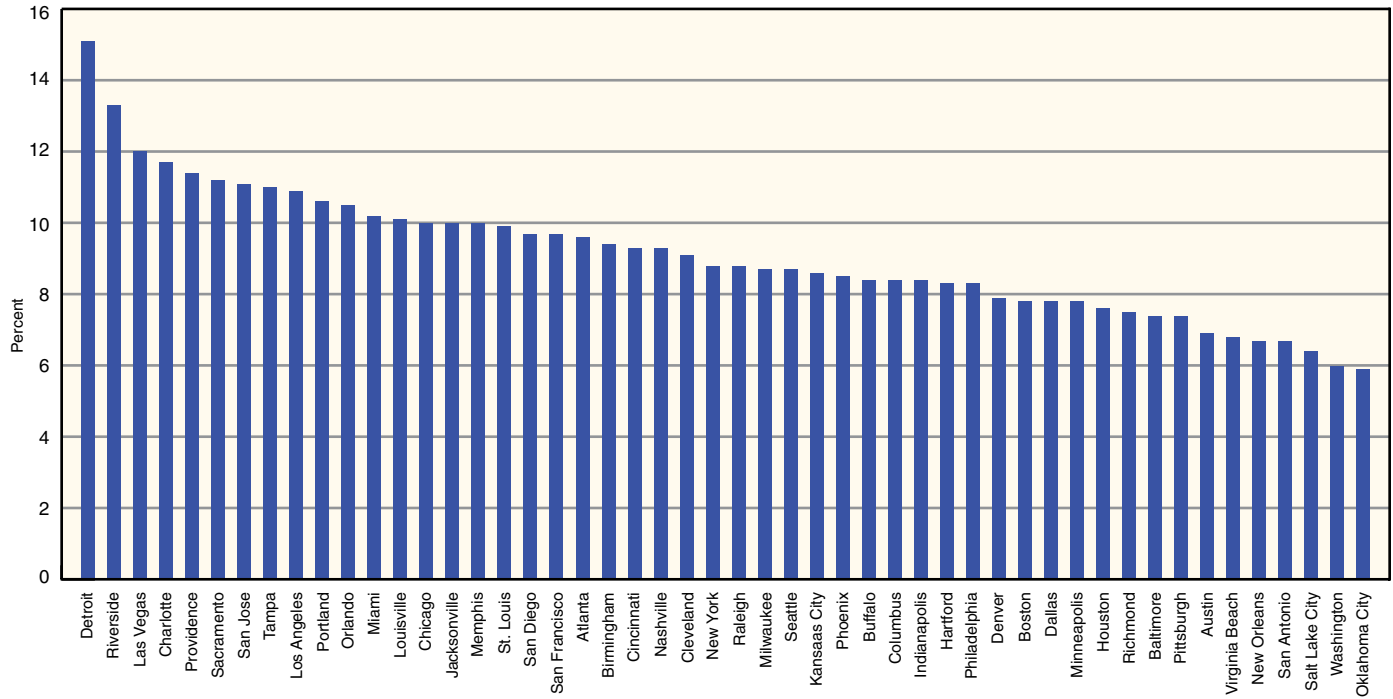
this effort because we've found that our estimates of "other income" deteriorate in quality as the time series extends well beyond March (the month on which estimates are based). In the future, we will seek to improve this monthly measure as well as experiment with other approaches, including (a) developing new measures that pertain to general hardship rather than official poverty and (b) developing new measures that, rather than capturing poverty per se, index the extent to which the labor market is delivering adequate wages to the working-aged population. The latter type of measure wouldn't require us to estimate "other income" and thus can be more readily developed with currently available CPS data.

FIGURE 1 Experimental Monthly Poverty Estimates, 2006–2009



Note: Estimates generated from the monthly Current Population Survey, the monthly Unemployment Insurance data, and data on other income sources imputed from the March CPS Annual Social and Economic Supplement. The trend line presented here is based on a three-month moving average.

FIGURE 2 Unemployment Rate by City (2009)



Note: The names of large metropolitan areas have been abbreviated by referring to the most prominent city within those areas.

Source: Algernon Austin, "Uneven Pain: Unemployment by Metropolitan Area and Race," Economic Policy Institute, <http://www.epi.org/publications/entry/lb278/>

### Measuring Poverty at the Local Level

The current recession reveals in especially stark terms that one's life chances are very much a function of where one lives. As shown in Figure 2, the 2009 unemployment rate was 15.1 percent in Detroit but only 5.9 percent in Oklahoma City, a result that doesn't speak directly to poverty but suggests that it may likewise vary substantially by city. In recent decades, recessions have been vehicles for deindustrialization and have therefore had especially concentrated effects in cities, like Detroit, with a substantial manufacturing base.

The spatial variation in U.S. poverty is not merely an expression of such spatial variation in the industrial mix. Additionally, there's much spatial variation in our antipoverty programs, a direct result of the decentralized administration of Temporary Assistance for Needy Families (TANF) and other antipoverty initiatives. By virtue of such decentralization, there's more room allowed for local decision-making on both access rules and amounts of assistance, variation that in turn means that the population fares very differently in different states and cities, especially during recessionary periods when a state's response to duress is so consequential.

It might be imagined that a country that's embraced a highly decentralized system of poverty programming would likewise

have a highly decentralized apparatus for measuring poverty. Nothing could be further from the truth. Because the CPS is based on a relatively small sample size, and because its sampling frame was not devised for city-specific analyses, it isn't well suited for city-level measurements of poverty. Although state-level measurements are available (and immensely valuable), most states are divided into rural and urban settings that are vastly dissimilar in their poverty profiles and are accordingly best distinguished in measuring trends in poverty. Given that poverty isn't measured at the local level, we are again obliged to operate in the dark, with food banks, homeless shelters, and other response organizations lacking the information needed to plan their efforts and to assess whether those efforts are meeting needs.

This pressing need for city-level measurements has so far been met in a haphazard way, with cities that happen to be blessed with both resources and enlightened leadership leading the way. The case of New York City stands out here. As Mark Levitan discusses in this issue, New York City has carefully built an SPM-style measure with the American Community Survey (ACS), an immense undertaking that makes it possible to understand who is susceptible to poverty, how various city and state programs are affecting the poverty rate, and how poverty is

evolving in response to the recession. This measure is a flexible policy tool that allows New York City to assess how the poverty rate could change in response to possible demographic developments, possible changes in the economic situation, or even new city-level initiatives.

## The current recession reveals in especially stark terms that one's life chances are very much a function of where one lives.

The same system for monitoring poverty and the effects of possible shifts in policy should be in place in every major U.S. city. Given that local economies are so different from one another, and given that antipoverty policy is likewise very local in form, we have no choice but to develop a correspondingly local monitoring system. We need, in short, a national commitment to and protocol for monitoring poverty at the local level, an initiative that would (a) increase the number of cities and rural localities that track poverty with an SPM-style measure, (b) provide a standardized measurement framework that makes meaningful cross-place comparisons possible, and (c) support the development of surveys that allow for high-quality local monitoring of poverty. We discuss below each of these priorities in turn.

*Increasing the Reach:* The most obvious problem with our local monitoring system is that it's not a system at all. There are unfortunately just a handful of localities that have committed to measuring poverty with an SPM-style measure. The Stanford Center for the Study of Poverty and Inequality, with support from the city of San Francisco, is building a local poverty measure for San Francisco, an initiative that will borrow from the techniques pioneered by Levitan and his colleagues in New York City. This year, we are expanding this effort to include other areas of California as well as the full state. There are also similar initiatives completed or underway at the city level in Philadelphia and statewide in Connecticut, Wisconsin, Georgia, Illinois, Massachusetts, and New York. These initiatives are important and valuable, but one can't rely on local sponsors alone to complete the measurement work that must now be undertaken across the country. Although the cost of building local measures is not trivial, it pales in comparison to the benefits of providing city policy makers, foundations, food banks, homeless shelters, and other response organizations with the information needed to plan their responses. It's not necessarily the case that a massive federal initiative is required. Indeed, if a standardized protocol for local measurement could instead be devised (and indeed the Census Bureau is supporting just such an effort), the costs that localities would face in building their own measures could be

reduced substantially, perhaps to the point that self-financing becomes viable.

*Standardization:* If local initiative of this sort is indeed insisted upon, the need for a standardized protocol looms especially large. It's not just a matter of ensuring that certain quality standards are followed in each city. Although quality control of that sort is important, the case for standardization additionally rests on the desirability of making cross-locality comparisons. In practice, most localities will have to devise two measures: one that's sensitive to local data availability and local poverty-relevant conditions (i.e., the "valid measure") and another that adheres

rigorously to a standardized protocol and that therefore allows for comparison across localities (i.e., the "comparable measure"). The New York City measure, for example, builds in the idiosyncratic complexities of rent control because it's so consequential for the experience of poverty in that city. In other cities, other types of local poverty-relevant idiosyncrasies may surface, and insofar as local data are available to incorporate those complexities, one wouldn't want to sacrifice validity for the sake of comparability.

*Data development:* The ACS will no doubt serve as the backbone of these local initiatives to measure poverty. Indeed, the Census Bureau recently commissioned the Institute for Research on Poverty (at the University of Wisconsin) to explore how the ACS can be used to produce SPM-style local measures, an important initiative that we applaud. However, because the ACS doesn't include all the items needed to fully mimic an SPM-style measure, various imputations and assumptions become necessary in the course of building local measures. The long-run goal in this regard should be to modify the ACS to allow it to better support local poverty measurement. Although it's obviously difficult to secure changes to the ACS, the stakes are high enough in this case to begin a discussion about whether such changes are feasible or, absent that, whether other approaches to local poverty estimation might be developed.

### Measuring Poverty with Nonstandard Expenses

The Supplemental Poverty Measure is based on a poverty threshold that includes the expenses every American incurs (i.e., food, clothing, shelter, utilities). The presumption, in other words, is that everyone must eat, wear clothing, use some form of shelter, and keep the lights on and the water running. Because these are presumed to be universal expenses, the SPM builds them into the poverty threshold.

But what about expenses that are not universal? The SPM reacts to such expenses in one of two ways. The first way is to allow for multiple thresholds. In recognizing, for example, that families differ in their number of children, the SPM accordingly allows for different poverty thresholds for families of different



sizes. We could likewise distinguish between families that are in good health and those that have serious health care needs (however difficult that distinction may be to define) by creating yet more “family types” and further multiplying the number of thresholds. However, insofar as we wish to maintain the principle of a *single* poverty threshold, there’s an obvious rationale for keeping the number of such family types—and hence thresholds—to a minimum.

The second way that the SPM reacts to “nonstandard expenses” (e.g., substantial health care expenses) is to subtract them from the income used to meet universal needs. It simply treats a family with \$1,000 in nonstandard expenses as having \$1,000 less in available resources to meet the needs captured by the threshold. This is the approach taken, for example, for medical and child care expenses. There’s no denying that both types of expenses are necessary in some situations; we need to get well when we are sick, and we need to care for our children (if we have them) while we work. Although these expenses are necessary, they are not universal, given that (a) some people are very healthy and incur no medical expenses and (b) some people either don’t have children or rely on child care arrangements that don’t require any or much money (e.g., care by spouses or relatives). The SPM’s approach to such “nonstandard expenses” is therefore to subtract the relevant out-of-pocket expenses from income. This approach assumes that all families, even those who just leave their children home alone, are receiving adequate child care and that the only necessary adjustments thus involve correcting for out-of-pocket expenses. Why is this assumption made? It’s not because we believe that all families are receiving the same quality of child or health care but because it would be very difficult to determine the quality of care received or whether it falls below some threshold of adequacy.

The SPM approach thus defaults to simply subtracting out-of-pocket expenses from income. This approach, while understandable enough in light of data limitations, doesn’t recognize that some low-income families—precisely because they are poor—have no choice but to accept inferior medical or child care outcomes. The poor parent who relies on relatives, neighbors, or television for child care may in some circumstances know that the child care is poor but, for lack of money, can’t incur the out-of-pocket costs that adequate care would entail. The SPM approach is unproblematic when such free care is adequate (and indeed often it is excellent). But in some cases it’s surely chosen not because it’s adequate but because the adequate alternatives are too costly. The inverse problem may also occur. That is, some families may “make themselves poor” by spending *too much* on child care, leaving them without the necessary resources to

bring them over the SPM poverty line. Under current methods, this problem is limited by capping expenses at the income level of the lowest-earning adult in the household, but nevertheless the approach is open to criticism from both sides.

The analogous observation applies to medical care. We can be certain that some families without any out-of-pocket medical costs are simply foregoing much-needed medical care because they do not have the money to pay for it (and others may overspend on medical care and therefore make themselves poor as a result). However, insofar as health care reform renders adequate health care truly universal, the concerns on that front will eventually disappear and child care will become the most troubling nonstandard expense.

And troubling it is. Arguably, the most dramatic development of the last half-century has been the flow of women into the formal labor force, with the resulting partial marketization of child care (in the case of the United States). It’s vexing, then, that the first major reform of poverty measurement in the last half century doesn’t satisfactorily represent the implications of that development. That said, we recognize that compromises inevitably had to be made in developing the SPM; indeed, the SPM would likely never have happened absent a willingness to make such compromises. We are simply suggesting that, as the SPM is further developed and modified, we would do well to continue experimenting with alternative ways of bringing in nonstandard expenses, perhaps especially those pertaining to child care.<sup>1</sup>

### Toward a Modernized Poverty Measurement System

The SPM is a major milestone. The improvements it makes are many, and the reasons for being dissatisfied few. We’ve nonetheless exploited the occasion to take stock and ask how we might capitalize on the momentum for change by developing a more comprehensive system for monitoring poverty. If there’s any silver lining to the recession and its aftermath—and, clearly, there are precious few—it’s that it pushes poverty closer to the center of the political stage and provides a rare opportunity to modernize our poverty measurement system.

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*Christopher Wimer is the Associate Director of the Stanford Center for the Study of Poverty and Inequality. Barbara Bergmann is Professor Emerita in the Department of Economics at American University. David Betson is Associate Professor of Public Policy and Economics at the University of Notre Dame. John Coder is a principal at Sentier Research. David B. Grusky is the Director of the Stanford Center for the Study of Poverty and Inequality.*

### Endnotes

1. The alternative tack that might reasonably be taken is to adhere to the stricter view of poverty adopted by the NAS panel. That is, if the poverty concept is understood as intrinsically pertaining to needs for food, clothing, shelter, and utilities (and a small

residual), then all other needs (e.g., health care, child care) are, by definition, outside the poverty concept. This approach entails maintaining a “pristine” poverty concept and then building additional indices for health care, child care, and any other needs

falling outside that pristine concept. There is an ongoing NAS workshop panel examining how a medical care risk index could be developed in conjunction with the SPM to better capture medical needs.