

Adjusting the U.S. Poverty Line: Working Toward a More Accurate Measure

Becca Heilman | Spring 2020 | UNC-Chapel Hill



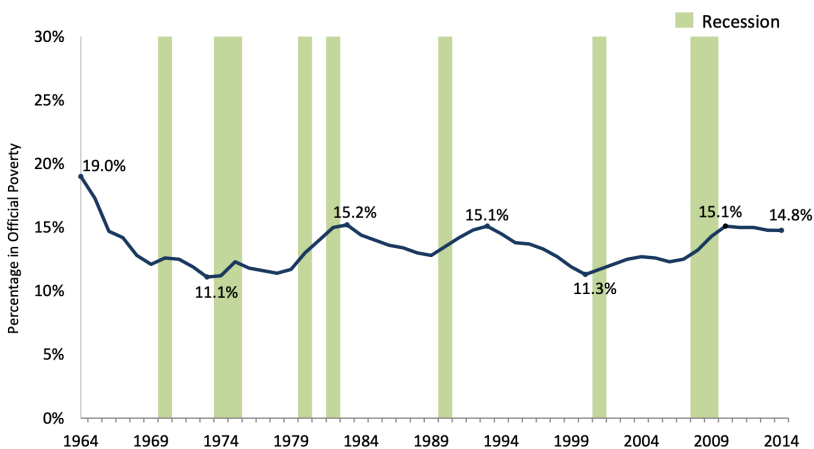
The Problem

The United States has been using the same official poverty measure since the 1960s, and its measure is too low.⁶ Although the thresholds update annually based on the Consumer Price Index for All Urban Consumers, they fail to account for non-food needs such as clothing, housing, or healthcare; noncash benefits; geographical differences in cost of living; and increasing childcare expenses and share of income spent on food over time.^{5,8,9} The poverty measure has also been shown to underreport certain income sources⁹ and lacks a process for rebenchmarking in its calculation mechanisms, meaning it does not reassess whether the measure is tracking societal changes and needs of policymakers.⁵

Policymakers have struggled to make changes to the measure due to technical difficulty in measuring factors like childcare and healthcare costs, concerns about impacting federal program eligibility requirements and complicating comparisons of poverty rates over time, and worries about potential impacts on public opinion.

Statistics show the poverty rate has remained relatively stable over the past 50 years,¹ but inaccuracies in the measure itself may obscure the full picture.

Percentage of Population in Official Poverty, 1964-2014



Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements, Historical Poverty Tables.

www.census.gov/hhes/www/poverty/data/historical/people.html

Key Terms

Poverty Thresholds: a set of income thresholds set at three times the cost of a minimum food diet in 1963 and varying by family size, defining a family as in poverty if its total money income is less than its designated threshold. Used primarily for research and statistical purposes, the U.S. Department of Health and Human Services also simplifies them to determine financial eligibility for services such as the Food Stamp Program and Medicaid.⁴

Money Income: income received on a regular basis, not including capital gains or losses, noncash benefits like food stamps and housing subsidies, and tax credits.⁴

A Brief History of the U.S. Poverty Measure

Mollie Orshansky, an economist working for the Social Security Administration, developed the original poverty thresholds in 1963-64 to assess the relative risks of low economic status among different demographic groups of families with children. Due to lack of access to relevant data, Orshansky did not develop the thresholds as a standard budget.

Instead, she used the Agriculture Department's Household Food Consumption Survey, calculating families of three or more spent about one third of their total income on food after taxes. She then calculated poverty thresholds for families of three or more by taking the dollar costs of the economy food plan ("designed for temporary or emergency use when funds are low") for families of those sizes and multiplying the costs by a factor of three, referred to as the "multiplier."⁵

The Solution: Improve Accuracy

Policymakers can improve the measure's accuracy through a more comprehensive market basket including food, clothing, shelter, and small allowance for other needs and geographical adjustments. A new measure should account for changing ideas of basic needs over time, better reflect disposable incomes by taking into account taxes and cash-like in-kind benefits, and deduct work expenses and out-of-pocket medical expenses.

Adjustment in Practice: Recent Pushes For Change



The 2019 "Recognizing Real Poverty Act"⁷ Promotes a More Holistic Measure

- Asks the Secretary of Health and Human Services to assess the adequacy of the poverty line as a measure of the resources families need to afford basic goods and services
- Suggests the measure be updated to better assess family income level through a number of factors, including expenditures on food, clothing, shelter, utilities, and "new necessities" such as internet
- Requests adjustments based on geographic differences in costs of goods and services, health insurance costs, work expenses, childcare needs, and funds needed to secure children's equal educational opportunity



The Trump Administration's Cost-of-Living Adjustment⁶ Fails to Reflect True Cost of Basic Needs

- Suggests gradually lowering the official poverty line by applying a smaller cost-of-living adjustment every year through a lower measure of inflation
- An alternative inflation index may be less accurate for those with low incomes as prices rise more quickly for goods that dominate these households' budgets
- Could exclude poor and near-poor families experiencing significant hardships and financial insecurity
- Arbitrarily focuses on one questionable technical change as opposed to capturing rising living standards like computer and internet service

Barriers to Implementation

Changes in the distribution of the population shown to be in poverty could create problems among some political constituencies and alter eligibility numbers for public programs such as food stamps, Temporary Assistance for Needy Families, and Medicaid. It is generally difficult to gain political support for policies that increase social safety net programs because federal poverty programs have always been highly politicized due to social constructions of low income people as lazy and undeserving.

Because most federal programs already utilize a simplified version of the poverty thresholds, introduction of an alternative poverty measure

would likely have little direct impact because any effect would depend on the relationship between that alternative and the HHS guidelines.⁵ Surveys also show most Americans would set the poverty line higher than the official poverty line.⁸

Inaccuracies and continued failures to act have tangible impacts on the lives of low income people. A more accurate poverty measure considering factors included in the Recognizing Real Poverty Act would increase the number of individuals eligible for government services and allow government officials to more accurately assess citizens' needs and design effective solutions. Policymakers should advocate for a more rigorous measure that fully encapsulates the costs of basic goods.

Works Cited

1. Chaudry, A., et al. "Poverty in the United States: 50 Year Trends and Safety Net Impacts." U.S. Department of Health and Human Services, March 2016, <https://aspe.hhs.gov/system/files/pdf/154286/50YearTrends.pdf>. Accessed 2 April 2020.
2. Fisher, Gordon M. "The Development and History of the Poverty Thresholds." *Social Security Bulletin*, vol. 55, 1992, pp. 3-14, <https://heinonline.org/HOL/P?h=hein.journals/ssbul55&i=393>. Accessed 11 Feb. 2020.
3. "HHS Poverty Guidelines for 2020." U.S. Department of Health and Human Services Office of the Assistant Secretary for Planning and Evaluation, 8 Jan. 2020, <https://aspe.hhs.gov/poverty-guidelines>. Accessed 19 Feb. 2020.
4. "How the Census Bureau Measures Poverty." United States Census Bureau, <https://www.census.gov/topics/income-poverty/poverty/guidance/poverty-measures.html>. Accessed 19 Feb. 2020.
5. Ruggles, Patricia. "Poverty Measurement and Politics: Why Is It So Hard to Change the Way We Measure Poverty?" *Review of Agricultural Economics*, vol. 30, no. 3, 2008, pp. 591-599, <https://www.jstor.org/stable/30225902>. Accessed 11 Feb. 2020.
6. Sherman, Arloc, and Paul N. Van de Water. "Reducing Cost-of-Living Adjustment Would Make Poverty Line a Less Accurate Measure of Basic Needs." Center on Budget and Policy Priorities, 11 June 2019, <https://www.cbpp.org/sites/default/files/atoms/files/6-11-19pov.pdf>. Accessed 11 Feb. 2020.
7. United States, Congress, House. *A Just Society: The Recognizing Real Poverty Act*. 116th Cong. 1st sess. Government Printing Office, 19 Sept. 2019, <https://ocasio-cortez.house.gov/sites/ocasio-cortez.house.gov/files/A%20Just%20Society-%20The%20Recognizing%20Real%20Poverty%20Act.pdf>. Accessed 19 Feb. 2020.
8. Ver Ploeg, Michele, and Constance F. Citro. "Poverty Measurement: Orshansky's Original Measures and the Development of Alternatives." *Review of Agricultural Economics*, vol. 30, no. 3, 2008, <https://www.jstor.org/stable/30225901>. Accessed 11 Feb. 2020.
9. Weinberg, Daniel. "Measuring Poverty: Issues and Approaches." U.S. Bureau of the Census, 14 Dec. 1995, <https://www.census.gov/content/dam/Census/library/working-papers/1995/demo/yaled95.pdf>. Accessed 11 Feb. 2020.