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New Way of Calculating Poverty Rate Faces Hurdles

By

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The official U.S. poverty measure, which turns 50 this year, isn't aging gracefully, economists say. But for reasons ranging from the practical to the political, it likely won't be changed or replaced soon.

The poverty line, devised by Social Security Administration economist Mollie Orshansky in 1963, was a sensible, essential piece of President Lyndon B. Johnson's war on poverty, economists say. Today, it falls short. It fails to account for noncash benefits such as food stamps; for changing expenditure patterns that have shifted the poor's burden from food to medical expenses and housing; and for regional variation that makes a dollar go further in the rural South than, say, in New York.

The poverty line's inadequacy is a rare point of agreement among economists in academia and at left- and right-leaning think tanks. "There is pretty much unanimous agreement across the ideological spectrum that the current measure of poverty is inadequate," said Michael D. Tanner, senior fellow at the libertarian Cato Institute. "Unfortunately there is far less agreement on how to do a better one."

Ms. Orshansky's poverty calculation involved two steps: calculating the cost of the cheapest sustainable diet; and multiplying that by a set number for each household type—three, for families of three or more—on the assumption that food made up a fixed share of all costs for basic survival for each type of household.

The measure has been updated each year for inflation using the consumer-price index. But that's about all that has changed—including in this week's release of 2012 figures showing the poverty line for a family of four was $23,492, and that 15% of Americans were impoverished, statistically unchanged from a year earlier.

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In 1995, economists and sociologists convened by the National Academy of Sciences made recommendations to replace the official gauge. The Census Bureau, which now reports the poverty rate, in 2011 launched a new measure based largely on those recommendations. The Supplemental Poverty Measure sets the poverty line at the level of expenditures on essential items at the 33rd percentile, meaning two-thirds of households spend more on such items. The gauge includes medical spending, and is calculated by region. For 2011, the new measure showed a poverty rate of 16.1%.

Many economists applauded this step. But the supplemental measure remains supplemental, and experimental. It also has been overshadowed, since Census typically doesn't release these stats until at least 1.5 months after the official data.

Trudi Renwick, chief of poverty statistics at Census, said it was never meant to replace the official gauge, which has some advantages, such as simplicity and the continuity of data going back to 1959. The SPM can only be calculated back to 2009. Census surveys before then lacked some questions needed to calculate the SPM.

Some researchers have other objections to the SPM, such as how it accounts for medical expenses. But political obstacles may matter more. "There are more people who are poor under this measure" than by the official gauge, said David M. Betson, a University of Notre Dame economist. "Obviously that is a political problem."

Some local governments have taken the hit of a higher poverty number. In 2008, New York City released its own gauge, filling gaps in national data using local numbers and statistical models. This didn't paint a pretty picture of the city's economy, with 23% of residents poor in 2006 in initial estimates, against 18% by the official measure.

While the higher numbers initially may have reflected poorly on New York, the city's move has paid dividends. It has allowed the city to tout positive effects on poverty from programs it implemented after the new gauge was launched. Researchers have developed measures for other states, such as Wisconsin and California.

New York City and other high-cost areas could benefit from getting attention for their measures if it leads to change on a national level. A new poverty measure that reflects regional variation, used to determine eligibility for benefits, would mean a bigger share of dollars from federal programs.

Kristin Morse, executive director of New York's Center for Economic Opportunity, which produces the city's numbers, said that "just wasn't the motivation" behind the new gauge.

It isn't only certain regions, but also some segments of the population, that stand to gain or lose if the national measure is overhauled. Seniors, for example, would see higher poverty rates because the new gauge takes medical expenses into account. "There will be winners and losers and thus the politics of this are not inconsequential," said Hilary Hoynes, a University of California, Berkeley, economist.