UNIVERSITY OF MARYLAND

MEMORANDUM

November 29, 2004

To: Seminar Members, "Reconsidering the Federal Poverty Measure"

From: Douglas Besharov and Gordon Green

Subject: Summary of Session #3: Poverty by Definition of Income

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The third seminar on "Reconsidering the Federal Poverty Measure" was held at the American Enterprise Institute on October 12, 2004. The seminar focused on three background papers and presentations on the subject of poverty by definition of income. The first paper and presentation was by Charles Murray, W.H. Brady Scholar at the American Enterprise Institute, on "Toward Decisions on a Pre-Transfer Poverty Measure." The second paper and presentation was by Wendell Primus, Minority Staff Director, Congressional Joint Economic Committee, on "What Should Count as Income?" The final paper and presentation was by Daniel Weinberg, Chief of the Housing and Household Economic Statistics Division, U.S. Census Bureau, on "Income Data Quality Issues in the Annual Social and Economic Supplement to the Current Population Survey." Douglas Besharov introduced each of the speakers, whose presentations were followed by a question-and-answer session and then a general discussion.

Charles Murray's Presentation

Murray noted that a pre-transfer measure of poverty would be very useful if presented along with the official measure of poverty, to show the percent of households that could make a decent living before receiving government transfers. He said that he was encouraged by previous work on this subject by Sheldon Danziger and Robert Plotnick (for the period from 1965-1982) and by Timothy Smeeding (for the period from 1965-1985), showing trends in poverty rates over these periods according to alternative definitions of income. Referring to the U.S. Census Bureau's 15 definitions of income, Murray noted that Definition 2 is close to the pre-transfer measure of poverty used by Danziger and Plotnick, and Definition 14 is similar to the post-transfer measure of poverty used by Smeeding.

Murray referred to his paper's charts and noted that the trend lines in poverty among the pre-transfer, official, and official plus in-kind measures generally show more difference in their movement between 1965 and 1980 than after 1980, when the Census Bureau's estimates of the three series track very closely together. This led Murray to question whether Danziger and Plotnick and Smeeding were using different methodologies in their calculations than those used by the Census Bureau, or whether the relationship between the trend lines changed after 1980. Based on conversations Murray had with the authors, Danziger and Plotnick thought that their measure was the same as the Census Bureau's, but Smeeding thought his was different, largely because of the valuation of medical care. Murray said that he was satisfied with these explanations.

The very close tracking of the three Census Bureau poverty trends after 1980 led Murray to rethink whether we need a pre-transfer measure of poverty. Because of the close tracking, he said that once the official measure of poverty is known, the pre-transfer measure of poverty can be accurately predicted within .4 of a percentage point. For year-to-year changes, the official measure of poverty provides substantial information. Murray argued, however, that it is still desirable to have a pre-transfer measure of poverty to gauge the effect of major changes in policy.

Murray noted that, with all of the effort going into poverty alleviation, he was amazed that there was such close correlation between the pre-transfer measure of poverty and the official measure. He asked the group if they had expected such a close correlation. Alice Rivlin said that she was surprised to learn that the measures tracked so closely, and that we should try to find out why this is the case. Murray also remarked that we would expect more divergence in the two series for female-heads of households than for the elderly, but, in fact, the opposite occurs—the correlation is stronger for the former than the latter.

Besharov noted that during the 1960s and 1970s there was an increase in government aid to families and children, but after 1980 there was no major change in benefits, which could explain the constant relationship between pre-transfer and post-transfer poverty. Murray thought that the 60 percent decline in AFDC caseloads should have shown up in the official poverty series, because these payments do not go to many people above the poverty line, but the decline did not appear. He speculated that since female-heads of families were behaving in a different way after 1996, the relationship between the pre-transfer measure of poverty and the official measure should have shown at least a "wiggle." Besharov noted that many of the people who left welfare are still poor, even if they are working.

Murray speculated that people who left the welfare rolls may have had different characteristics than the ones who stayed, but Besharov noted that the characteristics are very similar for welfare leavers and stayers. Don Winstead said that at a highly aggregated level, the characteristics of people on welfare are similar to those in the past. Murray speculated that the composition of people on welfare may have changed if we could measure characteristics such as IQ and energy. Winstead noted that the welfare universe is very dynamic, and that the degree of churning is increasing each month as new people come on to the rolls and previous recipients leave. Nevertheless, the characteristics of the two groups are not all that different.

Concerning the close tracking of pre-transfer poverty and the official measure that Murray noted, Dan Weinberg offered that wages and salaries are a significant part of both series and may be driving the stability we are observing. Murray thought this explanation was intuitively plausible. Michael O'Grady speculated that in-kind benefits could be having an effect on the behavior of the two poverty series. For example, the State Children's Health Insurance Program (SCHIP), a very valuable benefit, was created in 1997, and perhaps what we are seeing is a netting out between cash and noncash benefits. Murray noted that this explanation is plausible, but in a way it is too neat. He referred to the previous analysis presented at the seminar by Christopher Jencks, which showed different trends in child poverty based on which measure was used.

Nicholas Eberstadt offered that the topic under consideration sounds like a "good-news, bad-news" story. The good news is that the informational content of a pre-transfer measure of poverty is minor, since it is just a scalar of the official measure. The bad news is that the pre-transfer measure of poverty does not track any closer to material living standards (which Jencks examined) than the official measure. Murray said that a pre-transfer measure of poverty should track closer with consumption than the official measure, but it does not, so we need to look more deeply into the situation.

Wendell Primus said that he thought it was still useful to have a pre-transfer measure of poverty, even if it does track closely with wages and salaries, because we want to know what happens during a recession, especially with respect to the safety net. Steve Landefeld noted that even though business cycles can influence how data series move, the trend lines that Murray presented look like the projection of a point estimate backward and forward in time. He suggested that we might ask Danziger and Plotnick and Smeeding to document their methodologies.

Kathleen Cooper noted that this discussion is one of the main reasons we are having these seminars on the poverty measure, and that Murray had made the point very clearly that a pre-transfer measure of poverty looks like a scalar transformation of the official measure.

Wendell Primus's Presentation

Primus opened his presentation on "What Should Count as Income?" with some general remarks about the poverty measure. He said that the poverty measure needs to be modernized. The official measure of poverty ignores most of the major government assistance programs for children, such as food stamps, housing subsidies, the Earned Income Tax Credit (EITC), school lunches, and the child tax credit. Primus believes there is a need to separate the measurement of poverty from issues of program eligibility and the allocation of funds. He also noted that the current poverty measure is neither a relative measure nor an absolute measure. The primary purpose of the poverty measure is a longitudinal measure of economic well-being at the bottom end of the income distribution. Primus said that there are political limits on how much poverty rates could change under a new definition.

Primus argued that what we count as income needs to be reflected in the poverty thresholds. He then went through a series of adjustments to the official poverty measure, which included adding realized capital gains, subtracting work expenses, adding net imputed rent on owner-occupied housing (with a 25 percent cap), adding food stamps, housing subsidies, and other in-kind transfers, subtracting federal taxes, adding the EITC and the Child Tax Credit, and making an adjustment to the equivalence scale used in the poverty thresholds. To adjust the equivalence scale, Primus started with a four-person family, used the CBO equivalence scale, and eliminated separate poverty thresholds for the elderly, so there is no distinction between children and the elderly in his approach. After making this series of adjustments, the poverty rate declines from the official measure in 2000 of 11.3 percent to 8.9 percent. Primus made an additional adjustment by using household income rather than family income, which lowered the poverty rate further to 7.2 percent.

After adjusting for household income, 4,950,000 people were reclassified as non-poor, consisting of 1,126,000 children under 18 years old, 1,715,000 people between 18 and 25 years old, 1,962,000 people between 25 and 64 years old, and 148,000 people 65 years old and over. Regarding the usage of household income rather than family income in the determination of poverty status, Primus noted that he did not know if unrelated people living in households were cohabiting couples or college students living together, but he would count the income of cohabitors if it could be established that they were sharing income.

Primus's adjustments increased the poverty thresholds by 15 percent for non-elderly households with two adults and two children, and by a higher percentage for the elderly. He said that he made these adjustments in accordance with recommendations by the National Academy of Sciences, and that they get us back to a similar level of poverty that we have under the current measure.

When addressing the influence of home equity on poverty estimates by age, Primus's adjustments kept the poverty rate the same in 2000 at 11.3 percent if home equity was not included, but lowered it to 10.0 percent if home equity was included. For children, the poverty rate was 16.2 percent under the official measure, 14.5 percent including his adjustments except for home equity, and 13.5 percent if home equity was also included. The adjustments had the biggest effect on the elderly. Their poverty rate was 9.9 percent under the official definition, 15.2 percent after the adjustments excluding home equity, and 10.9 percent if home equity was also included.

Primus noted that home equity is difficult to value, because we cannot eat it or buy clothes with it, so we need to restrict it with a cap (set at 25 percent). The effect of including home equity on poverty estimates is much more significant for the elderly population than the total population. For the total population, the poverty rate is lowered by 1.3 percentage points with the cap and 1.7 percentage points without it. For the elderly, the poverty rate declines by 4.3 percentage points with the cap and 6.1 percentage points without it. Primus also noted that the effect of home equity on poverty rates is not consistent across time—the size of the effect declined between 1979 and 2000, which led Primus to suspect that the methodology is not consistent over time. In response to this, Weinberg said that the methodology used by the Census Bureau, which is based on the federal funds rate, has not been updated for some time so he could not respond to the question.

While the official poverty rate declined by 1.5 percentage points from 1989 to 2000, Primus's adjustments show a reduction of 4.2 percent. The reduction in the poverty rate is even larger for children: 3.4 percentage points under the official measure and 7.4 percentage points under his measure. Moreover, the reductions in poverty rates are even larger for minorities using Primus's measure rather than the official Census Bureau measure. Primus noted that these findings do not support the popular conception that poverty rates did not change significantly during this time period.

Primus disaggregated the larger reduction in his measure of poverty (not counting home equity) compared to the official measure. Thirty-nine percent of the reduction was due to the EITC, 23 percent was due to counting household income and the adjustment to the poverty thresholds, 20 percent to the price index and interactive effects, and the remaining 18 percent to other changes to income. O'Grady asked if the EITC was being utilized more by black families than other families. Primus noted that the EITC had a huge effect beginning in 1989 for all groups. O'Grady wondered why this would have a larger effect on black families, and Primus responded that there is a lower percentage of black elderly compared to black children than in other families. Besharov added that many people who benefit from the EITC are above the poverty line. If blacks are at a lower level of income than other groups, the EITC may raise proportionately more of them above the poverty line.

Primus concluded that most of the decline in poverty rates during the 1990s was due to a combination of a stronger safety net and declines in pre-transfer poverty. There are huge differences in the pre-transfer rates of poverty between children and the elderly, but the post-transfer post-tax rates are much closer between the two groups. To understand what is going on, Primus supplemented his analysis to include the poverty gap, and concluded that the safety net reduced the poverty gap more than the poverty rate. Between 1989 and 2000, the EITC moved a number of families from below to above the poverty line. He concluded that the EITC offset the decline in means-tested cash benefits that occurred during this period. Primus thinks that to fully appreciate what is happening, poverty gap measures should be examined in conjunction with poverty rates.

In order to understand the dynamics of a recession, Primus argued that we need an improved measure of poverty. He thought that pre-transfer poverty measures provide important insights in this regard. For example, in the 1990-91 recession, pre-transfer poverty rates did not go up by as much as during the recessions that occurred from 1979 to 1983, and the safety net improved and responded better to the latter recession.

Primus also addressed the issue of what else should be counted as income to determine poverty status. He concluded that payments of child support and alimony should be subtracted from income. He would also subtract child care expenses from pre-transfer poverty, and child care subsidies and government subsidies when computing post-transfer income. Primus noted that state governments are cutting child care subsidies for the working poor. He also recommended subtracting medical out-of-pocket expenses from income. Having mixed feelings about this issue, Primus noted that he sees merit in setting aside healthcare expenses, but when the government increases expenditures on health care, it should show up in our statistical measures. He also recommended a household definition of income, where income sharing could be established, and a more refined adjustment to family equivalence scales.

Concluding his presentation, Primus recommended that the Census Bureau revise its estimates of poverty for 1989, and consider maintaining three separate poverty series: (1) the official measure of poverty, (2) one similar to what he described, starting in 1979 with a consistent methodology, and (3) one incorporating everything, as noted above. He agreed with Murray that a pre-transfer measure of poverty is desirable. He also thought that analysis of poverty data should emphasize the poverty gap much more than done previously. Primus recommended that the Census Bureau be given the resources to conduct research, develop methodology (borrowing much from TRIM), publish a poverty measure, and release a public use file that benchmarks government assistance payments (and perhaps other sources) to administrative data. Finally, he recommended that the presentation of income statistics be revised to embody the modifications under discussion.

Robert Greenstein did not have specific questions for Primus, but noted that he wanted to make some general comments. The underlying theme of the discussion is that the official poverty measure has created distortion, and that much more emphasis should be should be placed on poverty gap measures in addition to poverty rate measures. Greenstein noted that it matters how far below the poverty line people are located, and that is why poverty gap measures are useful. Specifically, he wants to see how much of an effect food stamps and the EITC have on closing the gap. He argued for pre- and post-transfer measures for both the poverty gap and the poverty rate. Besharov inquired whether Murray's estimates captured the effect of the EITC, and Murray responded that they did not. Weinberg added that the EITC is incorporated after the treatment of taxes in the Census Bureau's experimental estimates.

Greenstein did not agree with the exclusion of state income taxes in the analysis by Primus. Altogether, 42 states now have state income taxes, so Greenstein thought that we should exclude these state taxes from income and include the refundable tax credit. He acknowledged that this could cause some distortion across states, but how we now count housing assistance causes even more distortion. Greenstein concluded by saying that there are serious problems in how the Census Bureau counts noncash benefits such as housing vouchers.

Daniel Weinberg's Presentation

Weinberg admitted that the Annual Social and Economic Supplement (ASEC) to the

Current Population Survey (CPS) is not perfect. He noted that, with respect to questionnaire design issues, the Canberra Group on Household Income Measurement, held in 2001, made several specific assessments and recommendations. First, they concluded that the CPS ASEC is close to ideal, in principle, with regard to questionnaire design issues. Second, omissions include home production for consumption and barter, additional employer fringe benefits, and inter-household transfers. Third, the CPS ASEC is likely to have difficulty collecting non-market income, which BEA estimates at $104 billion.

With regard to data collection issues, Weinberg noted that unit nonresponse is typically compensated for by weighting to population controls (but income reporting may be uncorrelated with basic demographic characteristics). Item nonresponse is typically compensated for by "hot deck" imputation, but improved imputation methods may exist. Finally, notwithstanding these efforts, some response errors inevitably remain.

Concerning response error, Weinberg referenced a 2004 study by Ruser, Pilot, and Nelson that compared the Bureau of Economic Analysis (BEA) state personal income (SPI) with CPS ASEC money income for 2001.[1] This analysis found that in 2001, BEA SPI amounted to $8.670 trillion and CPS ASEC money income amounted to $6.446 trillion, a difference of $2.233 trillion. However, after adjustments to BEA SPI to derive a concept consistent with CPS ASEC money income, the remaining gap was reduced to $806 billion.

Weinberg discussed the degree of response error in the CPS ASEC for specific types of income. The degree of underreporting varies greatly by type of income: for wages and salaries, 3 percent underreporting accounts for $158 billion; for self-employment income, 48 percent underreporting accounts for $302 billion; for interest and dividends, 32 percent underreporting accounts for $132 billion; and for transfer programs, 23 percent underreporting accounts for $199 billion.

Concerning post-collection processing of data in the CPS ASEC, Weinberg noted three areas in which methodological improvements in imputation are needed. First, the methods used to impute item nonresponse need to be improved. Second, methods used in the valuation of noncash income need to be improved for employer fringe benefits, housing subsidies, medical care programs, and imputed rent for owner-occupied homes. Third, the methods used in the microsimulation of taxes need to be improved. Weinberg also noted that several other issues could be investigated including weighting for differential coverage by income category. Model-based corrections could be made for estimated misreporting.

General Discussion

[1]John Ruser, Adrienne Pilot, and Charles Nelson, "Alternative Measures of Household Income: BEA Personal Income, CPS Money Income, and Beyond," May 2004, pp. 1–23, available from the Bureau of Labor Statistics at: http://www.bls.gov/bls/fesacp1061104.pdf.

Greenstein asked Weinberg to discuss the Census Bureau's use of topcoding of income in the CPS ASEC, its significance, and whether more can be done to show the actual amount of income. Weinberg noted that income topcoding is used to protect the confidentiality of respondents. However, mean income is shown in the highest income category that is topcoded so the estimates will not be systematically biased downwards. It should be recognized that if very high income people are not included in the survey then income will be missed, so there is still some concern about response error.

Eberstadt asked how the poverty gap estimate compares with the gap between CPS money income and BEA personal income on transfers. Weinberg noted that it is a similar order of magnitude, but not all transfers go to the poor. Besharov asked how large the effect was, in terms of correcting for underreporting, and Weinberg responded that it was substantial. Steve Landefeld noted that the kind of impact that adjusting for underreporting has depends on the distribution of the income type. It matters whether income underreporting occurs for high-income groups or low-income groups, and IRS efforts to detect underreporting probably do not reach many people in poverty. Landefeld noted that the adjustment for wages and salaries is substantial, and if some of this were to go to low-income people then the effect would be substantial.

Landefeld said that he is interested in working with Weinberg to adjust BEA personal income for underreporting. Weinberg noted that he has gotten a lot of comments from people about adjusting CPS money income for underreporting. Landefeld believes it is a subject that should be taken seriously, using good judgment, because IRS is reviving its efforts to estimate the degree of underreporting, and an updated estimate of the impact is needed. Weinberg noted that of the $806 billion shortfall detected in the study by Ruser, Pilot, and Nelson, approximately $400 billion was due to underreporting. Landefeld noted that at the BEA, they see persistent underreporting of transfer income and property income.

Winstead provided background information on the Transfer Income Maintenance (TRIM) model maintained by the Urban Institute, which is updated each year using CPS data. The model originally was used to examine AFDC, child care, and child support. TRIM corrects for underreporting of certain, but not all, income types, and its adjusted estimates approach administrative totals. The CPS captures only about half of TANF, food stamps, and SSI, but TRIM makes adjustments for these income types. TRIM also makes adjustments for SCHIP and the payment of taxes, but it does not adjust for wages and salaries and self-employment income. Besharov asked Winstead if he had heard any comments about the adjustments made in TRIM, and Winstead said that he has not heard any complaints.

Greenstein said that when a data set misses a lot of income recipients, we need to do something to account for them. Primus noted that imputations do not always perform in the expected manner. He said that it is one thing to make an adjustment for underreporting when we know an administrative total, but often we do not know where the problem is located, or we do not have the administrative benchmarks needed to correct it. Primus cautioned that careful work is needed in this area, and that the degree of underreporting may vary by states. Besharov asked if the degree of underreporting has been growing over time. Weinberg responded that underreporting of dividends has always been high, but the degree of underreporting on cash transfers seems to have increased.

Greenstein asked Weinberg if, in the imputation for the EITC, a 100 percent participation rate was assumed, and Weinberg confirmed that was the assumption. Greenstein argued that there is a conceptual problem in valuing certain types of benefits. Unlike food stamps, which seem straightforward, when there is a payment to a provider, such as for housing subsidies or school lunches, there is a conceptual problem in converting the benefit into an income measure. We need to ask if it is fungible, and look at the cash equivalent value. Greenstein does not like the method that the Census Bureau uses to value school lunches, which is based on the cost per meal to the school. These values are double the subsidy in the food stamp program, because funds are going to maintain costs at the school. Greenstein also has a problem with calling this payment an income to the family. He said that if greater weight is going to be placed on valuing these benefits, then we need to come up with better valuation methods.

Weinberg noted that the Census Bureau tries to limit the value of some of these types of benefits with a cap. For example, the value of housing subsidies is the difference between the market value and what the household pays, which is a function of the geographical area in which they live. Besharov asked John Weicher to comment on the value of housing benefits. Weicher noted that housing benefits are worth about $800 per month if the recipient has zero income, but the amount varies significantly by geographical area. About $20 billion is spent on housing benefits per year, divided among approximately 5 million households, which amounts to about $4,000 each per year, on average. Besharov noted that this amount is larger than the maximum food stamp benefit, and there are big compositional differences among the recipients, so that housing programs have a big impact. Weicher noted that there are two basic types of housing programs. First, there is a voucher program in which people get approximately $800 per month towards rent, so they try to find the best housing unit possible. Second, there is public housing, and the subsidy can be related to a variety of factors, but is usually based on the tenant's income and market rent.

Murray said that the best approach for valuing benefits is to have a laundry list of benefits to count. We need to realize that some benefits are easier to count than others, and some are more important to count than others, but ultimately we want a conceptual measure that is more useful. We should take the laundry list and say that we want to count certain things, concentrating on the more important items. Responding to Murray's comment about the need for a laundry list of various things to count, Greenstein said that Murray was right about the valuation of school lunches—either improve the measure or throw it out. Concerning housing subsidies, Greenstein noted that vouchers go to two million out of five million subsidized units, and there is a plethora of subsidies and great complexity in how they are administered. He said that if we want to count housing subsidies as income, then we need more rational procedures for valuation. Primus noted that consistency is important, because we want to be able to track the correct measure over time. He agreed that it is difficult to make geographical adjustments for the cost of living, so we should not even attempt to do so. However, he views school lunches as an important government program, and thinks that we should not stop valuing it, especially since the Census Bureau is already counting it. He noted that school lunches are about as large in magnitude as TANF, and counting them makes a difference in our estimate of the poverty gap. Murray suggested that we should think of a matrix showing how easy it is to measure various noncash benefits and how large they are, and proceed from there.

Murray said that whatever we do to modify the poverty measure, we cannot come up with an estimate that is too different from what we now have. He said that the main value of the poverty measure is not to count the number of poor, but to capture changes in the number of poor over time. Rivlin said that everyone seems to be agreeing with Murray that the number of poor needs to stay about the same, but she disagrees. Rivlin feels that if we come up with a better way to measure poverty, then we should dramatize it rather than bury it. Murray responded that if we come up with a new measure of poverty that is very different than the existing one, a number of constituents will disagree. He said that it is much easier to take a new measure and show its effects retrospectively, as Christopher Jencks did in his earlier analysis at the seminar. Besharov noted that in the analysis by Primus, there are very different effects for different groups of people. Primus endorsed what Murray said, but noted that even if the overall measure of poverty is about the same, there can still be big differences for groups.

Besharov expressed concern about the matrix approach proposed by Murray, because a measure that is too complex may cause confusion. The CBO director needs to be able to present poverty statistics to Congress in a manner that it is clearly understood. Rivlin noted that the reason many noncash benefits were not included in poverty statistics in the past is because they are difficult to measure. Now that these programs have large dollar amounts, they need to go into the poverty measure. Rivlin's view was that most officials will not have to defend the poverty measure before Congress. Weicher noted that when he testified to Congress about poverty issues under the first Bush administration, only about two out of ten congressional members attended the session. He noted, however, that if the poverty rate was going to be halved, there would have been a lot more attention.

O'Grady speculated that the number of congressional members interested in poverty issues would be minimal. He said that they look to multiple trusted (bi-partisan) sources for advice on complex issues. As an example, O'Grady mentioned that we have about four different measures of the number of people without health insurance. Some of the alternative measures are better for answering certain kinds of questions. As with health insurance, any new measure of poverty would need to be tested over time by trusted sources.

Primus noted that he wanted to add some additional dimensions to the matrix proposed earlier by Murray. He said that what we include in income and use for a poverty threshold needs to match some expectations about the poverty rates for children and the elderly, and how they have changed over time. Besharov asked how will we know that all of the elderly are doing better. Primus responded that when there is a major change in policy, the poverty measure needs to be able to pick it up. For example, during the 1990s there was a major increase in child care spending, but the current measure could not pick it up.

Besharov noted that the discussion seemed to be suggesting that if the poverty rate needs to stay about the same, and if we include the EITC, food stamps, housing subsidies, and other benefits, then the poverty thresholds must go up significantly. Murray said that the group needs to come up with changes to the poverty measure that it is satisfied with so the Census Bureau can estimate the effect of making these adjustments. Rivlin said that it is insulting to liberals to count all of these high-dollar programs directed to the poor, and say that they do not have any effect. Weinberg noted that the Census Bureau has tried to simulate the various recommendations made by the National Academy of Sciences, and the poverty rate is not too different from what we have now.

Landefeld noted that it is possible to make major changes to key government statistics, as long as there is a proper roll-out and enough time for people to review the results. As examples, he pointed to the major changes made to Gross Domestic Product (GDP) and the Consumer Price Index (CPI). Louis Kincannon noted that in Europe, different constituencies fight over the GDP estimate because the payment of taxes is tied to it. He argued that the notion that we can have no change is unpalatable. Besharov noted that some of the changes might be viewed as technical fixes, while other changes might be viewed in a different light. We need to be able to distinguish between the magnitude of changes. Eberstadt said that the changes that were discussed are profound, but they should be compared against expenditure data or else we are dealing with an abstract game.

June O'Neill, who responded by telephone, expressed the view that poverty is a subjective statement—it is in the eyes of the beholder. She said that it was very clear when the poverty measure was first developed that it was subjective. Unlike the CPI, in which people can agree about the technical changes that should be made, poverty is in a different category. It is desirable to have an array of different definitions, but there are some types of benefits that are inherently very difficult to value. O'Neill said that there is no scientific way to come up with the true number of poor. As Weinberg noted, the numbers are not perfect. There are questions about the data, especially for those who report that they received no income or transfers.

O'Neill agreed with Murray that keeping track of how we are doing with respect to poverty is the most important objective. She thinks that it is important to compare the elderly with everyone else. They have more wealth, but their capital gains are counted only when realized. She said that if the poverty rate reaches about five percent, people will either want to raise the poverty thresholds or get rid of the measure altogether. O'Neill has a conceptual problem with a pre-transfer measure of poverty. Estimates of pre-transfer poverty would change if transfer programs did not exist, because behavior would change. For example, if Social Security did not exist, then more elderly would work and living arrangements would change. Living arrangements are important because if a person moves in with relatives their situation changes.

Besharov commented on O’Neill’s statement about pre-transfer poverty by asking what we are measuring if someone might be working less because transfer programs exist. Rivlin noted that if we did not have a number of things then life would be different. She thought the attempt was to measure what the market would generate by itself. O’Neill replied that we want to know what the market is providing, but poverty is determined mostly by whether or not people choose to work. Primus argued that O’Neill actually made the case for a pre-transfer measure of poverty, because much of what happened in the 1990s with poverty is what happened to pre-transfer income. It’s true that we cannot say what poverty would be if programs did not exist, but we can get consistent measures over time and see what happens during a recession. O’Neill said that she can see more value to a pre-transfer measure of poverty over a short period of time, but over a longer period of time observed changes may caused by behavior. She emphasized that people should not believe that a pre-transfer measure will tell them what poverty would be if transfer programs did not exist.

Closing Comments

Cooper noted that the discussion had touched on three different issues that she wanted to emphasize. First, even if we agree on several different measures of poverty only one will get attention. Second, there is a question about whether we can have a different poverty estimate from the one currently in existence, and she feels that we can have a different estimate as long as there are good reasons. And third, she supports Murray’s idea of a matrix that lays out changes depending upon their importance and ease of implementation. We should search for the biggest bang for the buck given limited resources.

Besharov summed up the discussion by the group. First, the use of statistics on the poverty gap helps overcome the problem with the artificiality of the poverty definition—the fact that it assumes that a person with one dollar above the poverty threshold is better off than a person with one dollar below the threshold. Second, our work on the poverty measure is an evolving document—some part of the traditional poverty measure will certainly continue, but technical changes will get us closer to what we think we are measuring. Third, there is a great deal of interest in knowing what the social welfare system does for low-income people, and the poverty measure certainly needs to address this issue. Fourth, a pre-transfer measure tells us something important about what happens to low-income people in the short run, especially during recessions. And fifth, it may be desirable to go from 15 different measures of poverty down to about four to six.

O’Grady said that the central issue is the resources needed to produce poverty measures that fit into the policy making arena. If we can agree on four to six manageable measures, they will become more useful to policymakers.