UNIVERSITY OF MARYLAND

MEMORANDUM

December 15, 2004

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

From: Douglas Besharov and Gordon Green

Subject: Summary of Session #4: Consumer Expenditures, Consumption, and Poverty Measurement

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The fourth seminar on "Reconsidering the Federal Poverty Measure" was held at the American Enterprise Institute on November 18, 2004. The seminar focused on a background paper titled "Measuring Consumption and Consumption Poverty: Possibilities and Issues," by David Johnson, Assistant Commissioner for Consumer Prices and Price Indexes, Bureau of Labor Statistics (BLS). Comments on Johnson's presentation and paper were provided by Dale Jorgenson, Harvard University, and Bruce Meyer, University of Chicago and National Bureau of Economic Research. Following this discussion, Roberto Suro, Director, Pew Hispanic Center, presented a variety of statistics on the household arrangements of Hispanics. Douglas Besharov introduced each of the speakers, whose presentations were followed by a question-and-answer session, and a general discussion session at the end.

David Johnson's Presentation

Johnson noted that his paper was a compilation of various other papers that he had prepared with coauthors over a period of years. He said that the motivation for his paper came from the well-known chart on the "U-turn in poverty" presented by Dale Jorgenson and Daniel Slesnick in 1998. This chart showed that poverty rates, after declining from the late 1940s to the late 1970s, began to increase using the measure of money income from the Current Population Survey (CPS) conducted by the Census Bureau, were at a lower level using expenditures from the Consumer Expenditure Survey (CE) conducted by the BLS, and continued to decline even further using a measure Personal Consumption Expenditures (PCE) from the National Income and Product Accounts (NIPAs) produced by the Bureau of Economic Analysis (BEA).

As part of his presentation, Johnson focused on the "what, who, when, where, why, and how" used to measure consumption poverty:

- **What:** Which resource measure is used?
- **Who:** Whose poverty is measured?
- **When:** How is the measure updated over time?
- **Where:** Do the measures differ by location?
- **Why:** What is the purpose of the measures?
- **How:** Which thresholds and summary statistics are used?

Johnson noted that he views income and consumption measures of poverty as complementary, not as substitutes.

Johnson addressed the issue of why consumption provides a useful measure of poverty. Families and individuals derive material well-being from the actual consumption of goods and services rather than from the receipt of income. The life-cycle and permanent income hypotheses suggest that people use consumption to smooth their expenditures over their life cycle. Moreover, consumption provides a longer-term view of well-being than income.

Using charts, Johnson discussed four examples that showed the relationship between consumption and income. In the first example (traditional model), consumption exceeds annual income for younger and older households, reflecting the situation of a young (student) borrower or an elderly household that is depleting savings. Here, consumption gives a better estimate of permanent income than annual income. In the second example (over-consuming by excessive debt), although the household's income fluctuates it becomes accustomed to a certain consumption level, and borrows to finance it. Here, annual income may be a better measure of permanent income than consumption. In the third example (underreported income), income data obtained from household surveys are underreported, giving a misleading picture. Here, consumption might be a better measure of permanent income than reported income. In the fourth example (over-estimated consumption), since surveys collect data on expenditures and not consumption, the estimate of consumption may fluctuate from year to year. Here, annual income may be a better measure of permanent income than consumption.

In his four examples, Johnson showed that reported income and current consumption can give misleading signals because of measurement problems, and that under some cases reported income may give a better reading of a household's well-being than current consumption, and vice versa. In reality, all of the measures need to be put together to get a better understanding of what is going on.

Johnson presented a detailed chart showing the various components that go into expenditures, outlays, and consumption. He noted that a number of adjustments need to be made to move from expenditures to consumption, and these can present many difficulties. For example, to convert expenditures to consumption, service flows from housing need to be measured using the reported rental equivalence value. Service flows from vehicles need to measured, which can be more difficult. In-kind transfers need to be included, such as gifts from other households. It may be difficult to measure expenditures of different individuals in the household.

The crux of the problem in moving from expenditures to consumption is how to handle durable goods. Johnson summarized the issue by quoting Deaton and Grosh:

> in the case of major durable goods, expenditures and consumption are not closely related in the short run and household *expenditures* on durable goods will be a poor guide to their *consumption* of durable goods. . . . From these, some sort of consumption flow needs to be imputed.

Johnson said that it is not practical to measure the service flows from all durable goods, so some concessions need to be made to get a good proxy for consumption. For example, the service flows from housing and vehicles might be imputed, but not for other major durables. Home production and barter might be ignored.

In addressing the issue of whose poverty to measure, Johnson noted that a decision needs to be made on the appropriate unit of analysis and equivalence scale. For the unit of analysis, a decision needs to be made on whether to use families, individuals, households, or consumer units. The equivalence scale adjusts for economies of scale, and will tell how much more a family of four requires than a single individual. Johnson noted that equivalence scales matter most for single people and the elderly, and have a big effect on the composition of the poor. The National Academy of Sciences (NAS) recommended a two-parameter equivalence scale, adjusting for both adults and children. Johnson noted that the equivalence scale can have a big effect on the measurement of poverty trends.

In addressing the issue of how the poverty measure is updated over time, Johnson noted that the choice of a price deflator can also have a big effect on the measured trend in poverty. Referring to the “U-turn in poverty” again, he presented a chart showing the effects of alternative updating methods using the CPI-U, CPI-U-X1, and relative updating to illustrate the importance of the updating method chosen. He then presented five trend lines in poverty for the period from 1961 to 1995, showing the official measure based on income, Slesnick’s measure, consumption-poverty scales, consumption-poverty scales and PCE, and Slesnick-PCE-age/size. He used these trend lines to illustrate that the differences between the official measure of poverty and the Slesnick consumption measure of poverty from 1961-1995 are mostly due to the choice of equivalence scale and deflator, and not to the use of consumption instead of income.

To address the composition of the poor under different measures, Johnson examined the quintile distribution for several groups relative to quintiles for the total population. If age and household type do not influence the household’s relative economic position, then it would be expected that 20 percent of each age group or family type would reside in each quintile. If, however, certain age groups have fewer resources than others, they will be over-represented in the bottom quintile. Johnson looked at three measures: income, consumption, and consumption less housing, vehicles, and health. Regardless of the measure used, single mothers and children are over-represented in the bottom quintile. Single elderly women are more equally distributed based on the measure of consumption, but if housing, vehicles, and health are excluded, they are over-represented in the bottom quintile.

Johnson also discussed poverty rates based on consumption from the CE and how they compared with the official poverty rate based on money income from the CPS. Poverty rates based on consumption from the CE were at a lower level than poverty rates based on income from the CPS, and showed the same general trend over time. In contrast, poverty rates based on income from the CE had a trend that was inconsistent with the other two measures, and showed an increase since 1994.

Whether an income or consumption measure of poverty is used, Johnson said that there are several issues that need to be addressed. First, should medical expenses be included in the resource measure? Second, how should child-care and work-related expenses be handled? Third, how should in-kind benefits from the government be valued? And fourth, how should the value of home ownership be treated?

In his concluding remarks, Johnson noted that both income and consumption are important for examining the well-being of the poor, and they are especially useful for examining the composition of the poor. He said that a consistent methodology is needed to determine consumption levels, and a consistent data set is needed on both income and consumption. Johnson also said that we need a consistent definition of poverty thresholds, and quoted Rebecca Blank: "we also need to consider a reasonable poverty threshold to be consistent with the income measure."

Group Discussion

In the question and answer session following Johnson's presentation, Charles Murray asked him to characterize the errors present in the measurement of income and consumption. Johnson said that the BLS had compared the CE to PCE, and found some reporting problems in the CE, but he did not know whether income or expenditures had more serious reporting problems. Johnson pointed to a chart in his presentation showing that in 1992, the ratio of CE/PCE for aggregate expenditures was .67, but for comparable items it was .88. Dan Weinberg noted that a similar comparison for money income in the CPS was also .88, but for comparable items closer to .95. Johnson said the key issue is not the level, since the CE is designed to obtain the weights for the CPI, but whether the measure is falling over time. Johnson's chart indicated that the CE/PCE ratio fell from .88 in 1992 to .83 in 2002, and he said that he did not know the reason for the decline. Weinberg asked if the CE is nationally representative of the U.S., and Johnson replied that it is.

There was additional discussion about the effect of adjustments to income and consumption measures of poverty. Blank expressed concern that when adjustments are made for durable goods such as housing, it makes a much bigger difference for the elderly than for adults in general and children. Besharov asked that if all of these adjustments were made to the income measure of poverty, would it look like the consumption measure of poverty—in other words, would it have the same level and trend? Besharov noted that the poverty levels presented earlier in the seminar by Christopher Jencks and Wendell Primus, after similar adjustments to income, were in the 6–8 percent range. He said that the question raised by Blank is embedded in both an income and consumption measure of poverty, and wondered if the two measures would give similar results if similar adjustments were made.

Dale Jorgenson's Presentation

Jorgenson agreed with Johnson that income and consumption measures of poverty provide different perspectives, and both are useful. He said that income measures the resources available to a household, and consumption measures how these resources are applied. The problem is that the official poverty statistics are based only on income, not consumption, and this situation needs to be remedied.

Jorgenson said that household welfare is expressed in consumption per equivalent household member. He said that this provides a definition that can be used with the CE survey, using households rather than individuals as the unit of analysis. According to Jorgenson, the definition of consumption is not "rocket science," and there is general agreement among economists about how to do it.

There are three major issues, Jorgenson argued, that need to be addressed in developing a consumption measure of poverty. The first concerns how to handle data collected in the CE survey. The CE provides good information on nondurables. For durables such as housing, the determination of consumption is straightforward: for renters it is the rent they pay, and for homeowners it is the rental equivalent. The challenge is what to do about other consumer durables, for which there are no rental equivalents. There may be things that can be done to convert other consumer durables into an equivalent rental value. For example, people lease cars and keep them for a long time, so there may be some adjustments and standardizations that can be made to develop a rental equivalence value. Second, dollar values need to be converted into a constant price measure, so a price index is required. And third, an equivalence scale needs to be formulated, like a price index, to determine what expenditures household A would need to make to achieve the same well-being as household B.

Jorgenson said that an important feature of equivalence scales is that they are independent of the level of welfare, but dependent on household composition. As examples, he referred to the equivalence scales developed by Mollie Orshansky for the official measure of poverty and the scale recommended by the NAS, both of which are independent of the level of welfare. Jorgenson said that a good equivalence scale is needed to proceed with the estimation of poverty, and he recommended the one developed by Slesnick. He pointed to the trend lines based on Slesnick's equivalence scale from Johnson's chart presented earlier, and said that these present different and valuable information.

Concerning the issue of underreporting of expenditures in the CE, Jorgenson said that the CE could be calibrated to the PCE in the national accounts. If this was done it would show a lower level of poverty, down near five percent during the mid 1990s. However, Jorgenson proposed that the CE be used without adjusting it to PCE levels. A reconciliation needs to be done to understand how the different measures are performing. He said that staying with the CE measure of poverty is a more conservative approach.

Jorgenson also addressed the issue of how sensitive the poverty measure is to a price index. He said that he prefers a price index that is specific to each household, since each household has its own composition. This is preferable to a more general measure such as the CPI-U-X1 because it captures a given household's situation more accurately. While Jorgenson prefers the household specific measure on theoretical grounds, he noted that empirically it does not matter much which price deflator is used. What does matter is how consumption is measured and which equivalence scale is chosen.

Reviewing how the consumption measure of poverty changes the composition of poverty, Jorgenson noted that it changes our conception of poverty for several groups. Elderly people have much lower poverty rates based on the consumption measure, below five percent. The poverty rates for people in middle age groups are similar to the official measure. Poverty rates for younger people are slightly higher, reflecting an age effect. Consumption measures of poverty also show a narrowing of differences between regions of the U.S., and improvement for the south. Nonwhites still have higher poverty rates than whites, but under a consumption measure the differences are declining.

In conclusion, Jorgenson made three major points. First, income and consumption provide different perspectives on poverty, and both are valuable. The issue to be addressed is that there is no official poverty measure based on consumption. Second, Slesnick has developed a comprehensive and transparent method for measuring consumption, constructing a specific price index, and developing a consistent equivalence scale. This measure is comprehensive because it provides estimates for subgroups, and is similar in approach to using the PCE. Jorgenson reiterated that equivalence scales matter a lot in the estimation of poverty—it is essential to have a scale that is independent of the level of welfare. And third, Jorgenson argued that the CE is the place to begin using the approach he described.

Group Discussion

In the discussion period following Jorgenson's presentation, Robert Reischauer expressed concern about large movements in the nonwhite poverty rate during the late 1970s and early 1980s using the consumption measure of poverty. Jorgenson noted that the CE data have only been published in their present form since 1980, and that the movements probably reflect variations in the data from extrapolations using earlier data. He said that the nonwhite poverty rate could have moved around from a temporary experience of poverty, since there is significant movement in and out of poverty, and that many people in poverty are dissavers. Roberto Suro asked why the movement was so dramatic for nonwhites, and Jorgenson said that they were a more vulnerable group.

Nicholas Eberstadt asked Jorgenson to expand on his discussion about the PCE and CPI price deflators. Jorgenson said that he prefers a household specific price index such as the one developed by Slesnick because it captures events such as the higher inflation rate experienced by the elderly. The PCE deflator is as defined by the NIPAs. The weights for the CPI price index are developed from the CE. The CPI has an important policy—it is never revised backwards. A example would be the treatment of rental equivalent values for housing. In the 1980s, increases in the price of housing were substantial and the treatment in the CPI was remedied, but not retrospectively. Johnson noted that while the BLS does not revise the CPI backwards, there are a number of other experimental measures that people can use instead.

Blank cautioned that there needs to be attention paid to the poverty thresholds that are used in a consumption measure of poverty. She said that the thresholds are based on only cash income, but now the service flow from durables is counted along with cash income. If it was known beforehand that this was going to be done, a different set of thresholds would have been used. Jorgenson responded that Mollie Orshansky developed the poverty thresholds based on consumption, developing her multiplier as the reciprocal of the percent of income spent on food. Therefore, it is consistent to measure consumption against these thresholds. Besharov reminded the group that the January seminar will focus specifically on the poverty thresholds.

Besharov returned to the question raised by Reischauer by noting that since the CE is used to develop the weights needed for the CPI, it would not necessarily need to be a representative sample for nonwhites. Johnson maintained that the CE sample was representative over time. This led Besharov to ask Johnson why the nonwhite poverty rate bounces around dramatically using CE data, as Reischauer noted. Johnson said that there could be a number of factors that would cause the rate to jump around. Jorgenson noted that there is not another expenditure survey to compare the numbers against, only the aggregate numbers from BEA. Daniel Weinberg agreed that Reischauer's observation was a cause for concern. Besharov noted that in Jorgenson's chart, there is a split in the data series around 1980, and Jorgenson said that it might be the effect of the recession that occurred during that period. Johnson offered that it might be the effect of female heads of families and the equivalence scale. Besharov noted that the data before 1980 are based on imputations, and Steve Landefeld observed that there is a larger difference between the CE and PCE moving forward.

Bruce Meyer's Presentation

Bruce Meyer said that he had some observations and responses to the questions that were raised earlier, based on his work with James Sullivan. Concerning the question about how an improved measure of income compares with consumption, Meyer noted that for single mothers the differences narrow slightly, but still remain. Concerning the question about who is poor under a consumption measure of poverty, the composition of poverty is different and there are fewer anomalies such as people with low income and large, expensive cars. Concerning the question about underreporting in the CE, Meyer noted that for the average person income is a better measure than consumption. However, for people at the bottom of the income distribution, consumption is a better measure than income. Comparisons of consumption from the CE with the NIPAs may not be all that relevant. For people at the bottom of the distribution, expenditures are much higher than income. Either the income numbers are too low or the consumption numbers are too high, and evidence points to the income numbers being too low.

Turning to his Power Point presentation, Meyer noted that he thought Johnson's paper was a good compendium of the issues and a useful resource. In particular, he found especially useful the conceptual framework for the CE survey and the comparison of poverty rates using the Slesnick equivalence scale and price adjustment. Meyer said that in the key parts of Johnson's paper, the facts are not assembled into a conclusion or recommendation. He would add three conclusions: (1) an investigation of the relative importance of the different arguments for income or consumption as measures of well-being favors consumption, (2) there are reasonably good ways to calculate consumption using existing CE survey data, and (3) these data could be improved to calculate a better measure of consumption.

Concerning arguments for and against income and consumption as measures of well-being, Meyer said that the four examples used by Johnson are misleading because the relative frequency of the four cases and the magnitude of the deviations of income from consumption are not discussed. He then discussed the four examples in turn.

Under the *traditional model*, people save or pay back loans when income is high (prime years), and spend out of savings when income is low (in retirement). For most people, this is the key difference between consumption and income. The evidence for this is the substantial share of national income that is saved (when properly measured). For some groups of the poor, this story is not why consumption differs from income.

Concerning *over-consuming by excessive debt*, Meyer said that overall, excessive debt is not a significant reason why consumption differs from income. When one looks at groups of the poor, it is less of an issue. For example, single mothers have little or no assets, most do not have credit cards (and if they do, they usually have a low limit), and the income-consumption gaps for single mothers are just too large to explain by borrowing. Meyer suggested that it is worth looking at other groups with high poverty rates, such as the disabled and the aged without pensions or Social Security.

As far as *underreported income*, according to Meyer this is a first order issue for the poor. About 40 percent of AFDC/TANF and Food Stamp expenditures are not reported. There are also high non-reporting rates for Supplemental Security Income (SSI). Intensive interviews with single mothers by researchers who have gained their confidence indicates substantial unreported private transfers and off-the-books income, as revealed by the research of Edin and Lein in 1997.

Concerning *over-estimated consumption*, this arises due to the use of a short time period and durable purchases. If one uses a quarterly or better yet an annual measure of consumption, and includes the flow value of housing and vehicles rather than expenditures, this factor cannot be that important. The durables left are essentially appliances, and appliances are not a large enough part of expenditures to explain much of the income-consumption gap. In addition, most of the poor are renting where they will not pay for most of their major appliances.

Meyer also offered additional arguments in favor of consumption to measure poverty, based on his work with Sullivan. Consumption includes the flow of resources from durable goods, which is desirable to measure. Consumption can be disaggregated into components that are of interest in themselves. In-kind transfers, such as cars or government provided health care, are omitted from income or are hard to impute, but at least are partially captured by consumption. Non-medical consumption may be a better way to account for differences in access to health care. One can account for relative price changes. On the other hand, one may not want to count illicit spending. Consumption is also a better predictor of other measures of hardship than is income. Other measures of material hardship or adverse family outcomes are more severe for those with low consumption than for those with low income, indicating that consumption does a better job of capturing well-being for disadvantaged families.

Meyer acknowledged that income has some advantages over consumption for measuring poverty. Income data are easier to collect, given administrative reporting and a small number of sources of income for many people. In addition, income data are often collected using large samples. Meyer argued that there are also disadvantages to using income. Taxes need to be imputed to obtain disposable income. Simple comparisons of sample sizes are misleading in many contexts because consumption data are less variable. In addition, income seems to be a more sensitive survey topic than consumption, reducing the reliability of survey information on income. Furthermore, families with few resources tend to have multiple income sources. Some of these sources tend to go unreported (informal work) or are significantly underreported (government transfers and transfers from male friends). The extent of income underreporting may be affected by policies, and the extent of underreporting appears to have changed over time.

Concerning the measurement of consumption, Meyer said that the paper by Johnson mentioned many expenditure and consumption measures, but did not focus on how to arrive at the best one. He argued that expenditures should be converted to consumption by replacing housing and vehicle expenses with the service flow of consumption from their ownership. The value of in-kind transfers such as Food Stamps should be added in. The value of public or private health insurance should be imputed and out-of-pocket spending on medical care should be excluded.

Meyer noted that there are problems with existing data on consumption. Besides the CE survey, for a random sample of the U.S. with expenditure data there is only the Panel Study on Income Dynamics (PSID). The PSID provides food and housing consumption data, but other important components of consumption are missing. The CE interview survey and the PSID do not provide data on the value of housing subsidies. These subsidies can be a large fraction of the resources consumed by poor families. Finally, there is only limited information on in-kind transfers from family and friends in data sets containing consumption.

Meyer made several recommendations to improve the data. To impute housing flows more accurately in consumption surveys, inquiries should be made about the value of free or subsidized rent. Also, adding a small consumption module to some standard surveys might be considered. A small number of consumption questions may provide much of the information that one obtains with a more complete measure. If more complete wealth questions were to be added to the CE survey, even as a one-time event or occasional supplement, the internal consistency of cases in which reported expenditures exceed reported income could be better determined. Meyer noted that it would be helpful if it were easier to separate out spending on children and other family members. Finally, it would also be beneficial if one could separate work expenses from other expenditures.

Group Discussion

Besharov opened up the floor for discussion of Meyer's comments. Weinberg noted that the Survey of Income and Program Participation (SIPP) contains a limited number of questions on expenditures. Besharov said that it would be intriguing to have a wealth question to combine with the expenditure data. Johnson noted that in the CE questions are asked about assets and liabilities at the end of the survey, although admittedly there are some reporting problems; he encouraged people to use the public use data files. Besharov asked Meyer if he had anything to add to the discussion about wealth. Meyer noted that the data are incomplete, and a better job needs to be done to determine if saving or dissaving allows people to have expenditures that exceed income. He added that the SIPP questions on consumption are not extensive—neither detailed nor frequent. Weinberg agreed, but said that the data could be used effectively in conjunction with other data.

Michael O'Grady expressed concern about the ability to determine the service flow from housing. He said that he does not know the rental value of his own home, and wondered whether procedures are in place to follow up on the accuracy of the data. Besharov noted that one can use *AltaVista People Find* to look up the value of someone's home and estimate their income. Johnson noted that BLS uses the rental value as a weight for the CPI; in earlier surveys the field representatives asked the question and tried to check it out for accuracy. John Weicher said that the problem occurs in high-income areas where there is little rental property that can be used for a comparison. He said that there are rules of thumb, such as looking at the value of the house times the interest rate on adjustable rate mortgages. Weinberg noted that in the CPS, the rental equivalence value is derived by multiplying home equity times the mortgage interest rate. Landefeld noted that at BEA they use hedonic indexes to evaluate their imputations, and come quite close.

Besharov noted that when Meyer talked about the differences between income and consumption, he said that not all of the income had been accounted for, but not all of the consumption had been accounted for as well. For example, gifts have not been dealt with, such as when someone is given a personal computer. Meyer noted that when the survey does an inventory of automobiles, they are picked up. Besharov said that he knows of low-income people who get durables for free or a reduced price, and that many buy durables second hand. Johnson said that if there is a purchase, even a second-hand purchase, the CE will pick it up, but if it is a gift the CE will not pick it up. Besharov noted that many immigrants rely on hand-me-downs, which are not counted.

Murray said that the interest is in a measure of income and consumption for the lower end of the distribution. He is persuaded that consumption is a better measure than income for the poor, regardless of any issues about the poverty thresholds. Besharov noted that a later session on well-being will be led by Eberstadt, so it is an important point that will come later.

O'Grady noted that with Medicare prescription drugs there are serious reporting problems, so they model the error term. He wondered if a similar approach could be taken in the measurement of poverty. Jorgenson said that in the general area of discrepancies, he views such efforts as parallel activities. The first effort should be to get a consumption measure of poverty, and then there can be reconciliation efforts later. Johnson noted that they are looking at several improvements in the CE, such as using a new and more extensive diary, offering incentives to respondents, and comparing the CE estimates with PCE. He said that he encourages people to sponsor such research. Mark Shroeder noted that there is a fair amount of reporting error on subsidized housing because many people who say they are subsidized are not. He said that there is a big difference between cash and in-kind values for benefits, and that many people would prefer to receive cash instead.

Roberto Suro's Presentation

Besharov introduced Suro, and said that he would shed light on the discussion about consumption measures of poverty by presenting data about Hispanic living arrangements. Suro referred to Hispanics as a large wild card in the discussion, since the undocumented are not likely to participate in surveys and a large number of Hispanics are undocumented, as illustrated by large undercounts in surveys. He questioned how people should be handled who remit a large amount of money back to their home country—Hispanics remit about $30 billion a year back to Latin America, sending about $200–$300 at a time. Suro described Hispanics as being anomalous in their household structure. They have a strong sense of family, and when asked about the size of their family they often report it in double digits.

Suro presented several slides that described the personal characteristics and living arrangements of Hispanics. A smaller percentage of households (9 percent) are Hispanic than their share of the total population (14 percent). A smaller percentage of Hispanics own their own dwelling (46 percent) than rent (54 percent). The poverty rate for Hispanics (20 percent) is lower than for blacks (24 percent), but higher than for whites (10 percent). Central city residence is higher for Hispanics (46 percent) than for whites (23 percent), but lower than for blacks (51 percent). A greater percentage of Hispanics (81 percent) live in families than either whites (67 percent) or blacks (68 percent). The percentage of households that are married-couple families is lower for Hispanics (68 percent) than for whites (82 percent), but higher than for blacks (46 percent). The likelihood of a married-couple family having children under 18 years old is higher for Hispanics (73 percent) than for either whites (53 percent) or blacks (59 percent). Concerning family households other than married couples, the patterns are more similar for Hispanics and whites than for blacks, with just under half of Hispanics and whites being a female head with children under 18 years old, compared to three-fifths for blacks.

Suro also noted that household size tends to be much larger for Hispanics than non-Hispanics. Of non-family households with the resident living alone, the percentage is smaller for Hispanics (72 percent) than for either whites (82 percent) or blacks (86 percent). While only a small percentage of one-person households (6 percent) are Hispanic, the percentages are much higher for four-person households (14 percent) and large households of nine or more people (36 percent). Similarly, a larger percentage of Hispanic renters have four or more persons (8 percent) than for white non-Hispanics (2 percent) or black non-Hispanics (2 percent). Hispanic households are more likely to have three or more children (15 percent) than all households (6 percent).

As part of his presentation, Suro presented interesting statistics on Hispanics by geographical location. Household size is larger for Hispanics (3.59) than white non-Hispanics (2.43) or black non-Hispanics (2.72) regardless of geographical location, but the average household size is larger for Hispanics living in the Los Angeles metropolitan area (4.16) than for Hispanics living in the New York metropolitan area (3.32). The average family size for Hispanics is higher in Los Angeles (4.34) than in New York (3.66), but also higher than in several other geographical areas: Georgia (3.95), Nevada (4.02), and North Carolina (3.76). Suro said that Los Angeles is an interesting case study, with a lot more stable “Ozzie and Harriet” type families with children. He said that the sex ratios of Hispanic men to women are becoming much more normal in Los Angeles, compared to many other areas where men far outnumber women. Of total Hispanic households, four-fifths or more are family households in all of the geographical areas examined except for New York (77 percent). Around 70 percent of the family households are married couples in all of the geographical areas examined, again except for New York (56 percent). More than 70 percent of the married couple families have children under 18 years old in all of the geographical areas examined, again except for New York (62 percent).

Suro described other family households as a fast growing population outside of traditional areas that have unclear household structure, such as six men living together earning the minimum wage. Hispanics are much more likely than whites or blacks to have other relatives and non-relatives living in the household in traditional settlement areas such as New York and Los Angeles, and the differences are even larger in new settlement areas such as Georgia, Nevada, and North Carolina. Among non-family households, the percentage of non-relatives in Hispanic households is lower in traditional settlement areas such as New York (27 percent) and Los

Angeles (35 percent), than in new settlement areas such as Georgia (55 percent), Nevada (38 percent), and North Carolina (53 percent). Suro speculated that many of these people may be living in group housing.

Group Discussion

After Suro finished his formal presentation, there was more discussion about how the living arrangements of Hispanics are different than non-Hispanics. Suro noted that there is an entire sub-industry of Hispanic women who produce 15 or more meals at a time for a set fee, and deliver them to Hispanic men. Besharov noted that in Montgomery County, Maryland, it is not uncommon to see a single dwelling unit with eight cars, and sometimes 10 people living in a three-bedroom house, reflecting the new living arrangements.

Weicher provided additional information on living arrangements from the American Housing Survey (AHS), which is conducted by the Census Bureau. He said that about 250,000 households have six or more adults present, and about 40 percent of these are Hispanic. In terms of living arrangements in housing units, Weicher noted that the pattern is different for Hispanic and black households compared to white households. For Hispanics, the homeownership rate is now up to about 48 percent, and has been inching higher even with increased immigration. In each of the last three years, between 200,000–250,000 Hispanics have bought their first home with FHA insurance—and FHA is not the only participant in the market. In terms of housing quality, Weicher noted that about three percent of the units have serious inadequacies and about seven percent have moderate inadequacies, which means that they can be fixed up, but these figures have been coming down steadily. Weicher noted that there are differences in housing patterns for recent immigrants compared to those who have been here longer.

O'Grady said that Suro's presentation on Hispanics seems to be calling out for a multivariate analysis of the results. He wondered how much of the difference in family size between Hispanics and non-Hispanics was due to age difference as opposed to being a specific characteristic of Hispanics. Group living quarters may be more common for immigrants, regardless of whether or not they are Hispanic. It is possible that when adjustments are made for these other factors, a large part of the differences between Hispanics and non-Hispanics go away. He wondered whether the analysis could be stepped up to tease out whether the effects are specific to Hispanics or specific to immigrants.

Reischauer made a comment about the appropriateness of using a household rather than a family measure of poverty. He noted that housing is a problem for many research assistants at the Urban Institute who often live in multi-person households and share resources, which a household measure would pick up. Gordon Fisher noted that Mollie Orshansky developed the poverty thresholds for families and unrelated individuals, but Reischauer said that it may be time to revisit the issue. Reischauer also added that he thought the numbers cited by Weicher were too low, because it is difficult to get truthful answers when the questions are asking about illegal activities. There is more serious underreporting of income in the AHS for non-family households than for family households.

Johnson presented some additional statistics from the CE. Hispanics spend about 85 percent of what non-Hispanics spend. About nine percent of all consumer units are Hispanic, and they are more likely to be in non-family households. For the data he presented, Johnson reiterated that the choice of an equivalence scale and the unit of analysis have a large effect on the estimates.

Robert Greenstein said that the larger theme being discussed was the need for looking at data, such as that which Suro presented, for making policy. Greenstein said that about six weeks ago, the Department of Housing and Urban Development (HUD) issued new Section 8 regulations and significantly reduced fair market rents for large housing units, without citing any studies. He made a plea for transparency and for bringing data and studies into play for making policy. Greenstein added that he has not previously seen such a large change made without citing studies. Weicher noted that fair market rents are re-benchmarked with every Decennial Census, and they are inflated with rent indices during the intervening period. In addition, he noted that the boundaries of metropolitan areas changed, such as New England states shifting from towns to counties, and fair market rents are set for metropolitan areas.

Suro noted that there are huge differences between immigrant and non-immigrant populations. There has been a large immigration of young Hispanic males, and it is not uncommon in some areas to see sex ratios of 180 males to 100 females. As the number of young adults enter their first home, is the experience for Hispanics what is expected? What does entrance into the new home do to a family’s economic well-being? SIPP data indicate that the median income of Hispanics is 75 percent that of whites, but the ratio for wealth is only 10 percent.

Concluding Remarks

Besharov made several closing comments:

- As demonstrated by this conversation, both income and consumption provide valuable perspectives on the nature and incidence of poverty. (For example, many people use consumption to smooth their resource use over the long run.)

- More work should be done to align the income in the CE and the CPS so that comparisons across studies can be made.

- The CE should continue to investigate adjustments and enhancements to correct or reduce underreporting of expenditures (and income).
- The issues of poverty thresholds (equivalence scales) will be revisited in future seminar sessions. (When thresholds or equivalence scales are altered, the level and composition of poverty changes significantly, illustrating that “the devil is in the details.”)

- Choosing the proper unit for measuring poverty is an important issue, especially with the growth in cohabitation and other nontraditional households.