



Written Statement Submitted by Nancy K. Cauthen, Ph.D.

Deputy Director, National Center for Children in Poverty
Mailman School of Public Health, Columbia University

Hearing on Establishing a Modern Poverty Measure

Subcommittee on Income Security and Family Support
House Committee on Ways and Means

July 17, 2008

I am submitting comments on behalf of the National Center for Children in Poverty (NCCP) to express support for the ideas presented in the draft legislation, the “Measuring American Poverty Act.” The proposal addresses a number of issues I raised in testimony given a year ago at this subcommittee’s hearing on “Measuring Poverty in America” (Cauthen 2007). In brief, I argued that:

- Because poverty exacts such a high toll on our society, it is critical that we measure it in a meaningful way so that we can address it and measure the degree to which our anti-poverty policies are successful.
- The National Academy of Sciences’ (NAS) 1995 recommendations for improving the official poverty measure offer the most promising – and efficacious – approach to creating a more accurate measure of income poverty.
- In a wealthy, advanced industrial society such as ours, it is imperative that we supplement measures of income poverty with additional indicators of the health and well-being of our nation’s citizens, especially our youngest.

The draft bill addresses all of these points, at least to some degree. This statement further articulates why NCCP supports the substantive intent of the draft bill. It also outlines some additional steps that must be taken if we are to improve our nation’s ability to accurately assess the health and well-being of our citizens.

Why Adopt the NAS Recommendations for Improving Poverty Measurement?

Virtually no one argues that our current poverty measure is a good way to track income poverty. That is not to say that the current poverty measure is not useful. In his written statement for this hearing, Sheldon Danziger makes a compelling case for why the existing poverty measure has been one of our most important social indicators. For reasons mentioned by several of the hearing’s witnesses, once a new measure of poverty is adopted, it would be important for the Census Bureau to continue to track the old measure. Nonetheless, it is also true that the current measure is woefully inadequate for measuring income poverty in the 21st century.

In following the NAS recommendations and subsequent refinements, the draft bill addresses the two greatest flaws of the existing poverty measure (see Cauthen and Fass 2008):

1) The current poverty level – that is, the specific dollar amount – is too low because it is based on outdated assumptions about family expenditures.

Food now comprises less than one seventh of an average family's expenditures – not one third as was assumed under the original poverty measure. At the same time, the costs of housing, child care, health care, and transportation have grown disproportionately. Thus, the poverty level does not reflect the true cost of supporting a family at a minimally adequate level. In addition, the current poverty measure is a national standard that does not adjust for the substantial variation in the cost of living from state to state and among urban, suburban, and rural areas.

2) The method used to determine whether a family is poor does not accurately count family resources.

When determining if a family is poor, income sources counted include earnings, interest, dividends, Social Security, and cash assistance. But income is counted before subtracting payroll, income, and other taxes, overestimating how much families have to spend on basic needs. And the method understates the resources of families who receive some types of government assistance. The federal Earned Income Tax Credit is not counted nor are in-kind government benefits – such as food stamps and housing assistance – taken into account. This means that official poverty statistics cannot be used to analyze the effectiveness of these programs.

The NAS recommendations address these flaws by first basing *an updated poverty threshold* on data from the Consumer Expenditure Survey to reflect expenditures for food, shelter (including utilities), and clothing, as well as allowing a small additional amount for other common needs (such as household supplies, personal care, and non-work-related transportation); these figures would be updated annually. Importantly, the draft bill would adjust thresholds to address geographical differences in the cost of living.

On the resource side, the NAS recommendations provide for a *more accurate measure of the disposable income available to families and individuals to meet their basic needs*. The resource measure excludes certain expenses that are non-discretionary (such as work-related expenses such as child care and out-of-pocket medical care expenses), but it would include in-kind benefits (such as food stamps and subsidized housing).

The Importance of Establishing a Decent Living Standard

There are many reasons to establish an agreed upon measure of poverty, but one of the most compelling reasons is to identify families and individuals in need of assistance, what kind of assistance, and the scope of that need. To the degree that we want a poverty measure that can help us evaluate and improve policy, we need different kinds of measures. In her written testimony, Rebecca Blank also argues for the "value of comparing multiple measures of economic need, each measuring a different concept."

So what does a modern poverty threshold based on the NAS recommendations measure – and what else might be important to measure as well? Any new poverty threshold based on the NAS recommendations would not be substantially higher than current thresholds. Alternative poverty levels calculated by the Census Bureau that incorporate many of the NAS recommendations indicate that the threshold for a two-parent family with two children would increase by about \$3,000 (Bernstein 2007).

We know that the current poverty line does not accurately predict the likelihood that a family will experience material hardship (Iceland and Bauman 2007). Examples of material hardships include being evicted,

missing rent payments, having utilities shut off, going without needed medical or dental care, or having unstable child care. Research consistently shows that families with incomes of up to twice the current poverty level experience many of the same hardships as families who are officially poor – while families with income above twice the poverty line are substantially less likely to experience material hardships (Boushey, Brocht, Gundersen, and Bernstein 2001; Amey 2000). Some hardships, such as difficulties paying for child care and health care, are common among middle-income families as well.

In short, as I argued in my testimony last year – and as is acknowledged in the introduction to the draft legislation – a poverty measure based on the NAS recommendations is a vastly improved measure of deprivation and hardship. It is not a measure of a decent, if modest, standard of living. Even with an NAS-based alternative, there will continue to be many families and individuals who are deemed non-poor by the new measure yet who still are not able to meet their basic needs.

Therefore, one of the most important features of the “Measuring American Poverty Act” is the requirement “to develop a method of calculating a decent living standard threshold, including relevant variations for geography, family size, and other such factors, and a method of measuring the extent to which the income of families in the United States is sufficient to meet the threshold.

Such a measure would make it possible to more accurately assess what proportion of America’s families and individuals struggle to make ends meet. Lacking such a measure, NCCP along with many other organizations have used 200 percent of the current poverty measure as a proxy of what it takes to meet basic needs. Using this measure of “low income,” NCCP finds that 39 percent of our nation’s children are living in families that are struggling to get by (Douglas-Hall and Chau 2008).

My written testimony from last year detailed the various ways in which material hardship can impair children’s growth and development, which in turn contributes to negative outcomes for adults (in terms of educational achievement, employment and earnings, health, family stability, and law-abiding behavior). Ultimately, the effects of low income and economic hardship on children translate into long-term costs for our entire society through losses in productivity and economic output, increases in crime, and increases in health expenditures (Holzer, Schanzenbach, Duncan, and Ludwig 2007).

But I also argued that there is compelling evidence that it is possible to reduce these costs to society by investing in children when they are very young and simultaneously addressing the needs of their parents (Shonkoff and Phillips 2000). The evidence is clear that in the long term, sound investments in the healthy development of children and their families can increase economic productivity and improve overall prosperity, while reducing inequality (Knitzer 2007).

In sum, if we want to help struggling families – not just those who are utterly destitute but also those for whom a full-time job is insufficient to provide a family with even a modest but decent standard of living – then we need measures other than a 21st century measure of income poverty. A measure of a decent living standard is critical.

How Do We Develop a “Decent Living Standard?”

There has been a considerable amount of research over the last decade about what it takes to make ends meet. NCCP is now a leading producer of “Basic Needs Budgets.” In the fall of 2008, we will release an online tool, the “Basic Needs Budget Calculator,” that will initially cover about 70 localities in 11 states. We developed these budgets in conjunction with a project, *Making “Work Supports” Work* (<http://nccp.org/projects/mwsw.html>), that analyzes the effects of federal and state work support programs—earned income tax credits, child care and housing assistance, and food stamps – on the ability of low-wage workers to make ends meet.

The important point is that this work has a long and credible history. Diana Pearce, a sociologist who is currently affiliated with the University of Washington, spearheaded the concept and developed a detailed – and highly respected – methodology for “Self-Sufficiency Standards” under the auspices of Wider Opportunities for Women (Pearce 2001). The Economic Policy Institute (EPI) undertook a similar, but less detailed, effort and created “Basic Family Budgets” (Berstein, Brocht, and Spade-Aguilar 2000; Allegretto 2005). In addition, a number of state-level organizations (such as in Texas, Minnesota, and Vermont) have undertaken efforts to create their own budgets – some of which go beyond just meeting basic needs and attempt to address what it takes to move into, or be part of, the middle class.

Despite minor differences in methodology, all of these efforts provide additional evidence for the finding that families on average need an income of twice the current poverty level to cover the costs of basic expenses. NCCP has found that, depending on locality, this figure ranges from something over 150 percent of poverty to well over 300 percent (see table below).

Basic needs budgets for a family of four, in selected urban, suburban, and rural localities*

	URBAN New York, NY	URBAN Houston, TX	SUBURBAN Aurora, IL	RURAL Decatur County, IA
Rent and utilities	\$15,816	\$10,224	\$11,328	\$6,324
Food	\$7,878	\$7,878	\$7,878	\$7,878
Child care	\$20,684	\$15,422	\$18,793	\$11,682
Health insurance premiums	\$2,609	\$2,834	\$2,265	\$2,436
Out-of-pocket medical	\$732	\$732	\$732	\$732
Transportation	\$1,824	\$4,808	\$4,808	\$6,288
Other necessities	\$6,397	\$4,887	\$5,185	\$3,834
Payroll and income taxes	\$11,752	\$3,839	\$7,009	\$4,201
TOTAL	\$67,692	\$50,624	\$57,998	\$43,376
% of 2008 Federal Poverty Level	319%	239%	274%	205%

*Assumes two-parent family with one preschool-aged and one school-aged child.

Source: NCCP’s Basic Needs Budget Calculator (soon to be available online at www.nccp.org). Results are based on the following assumptions: children are in center-based care settings while their parents work (the older child is in after-school care); family members have access to employer-based health insurance; in New York family relies on public transportation, in all other locations, costs reflect private transportation.

NCCP’s Basic Needs Budgets, as well as Self-Sufficiency Standards and EPI’s Basic Family Budgets, include only the most basic daily living expenses and are based on modest assumptions about costs (again, see Cauthen 2007 for details).

In addition to these measures, we need indicators of what it takes for families to not only make ends meet but what it takes for them to actually move into the middle class. This requires a whole new level of analysis, and NCCP is actively involved in this effort.

Is This the Best We Can Do?

Many researchers and policy analysts quibble over the details of the NAS recommendations. One common complaint is that the updated poverty threshold continues to be based on a narrow conception of subsistence that includes only food, shelter (including utilities), clothing, and a little extra. We at NCCP are concerned that under the proposed new measure, essential services such as child care are not included as a basic family expense.

What does this mean concretely? The NAS recommendations do not include child care or medical expenses as part of the poverty threshold. The NAS decision was to treat work-related expenses (such as child care and transportation) as well as medical expenses as deductions from income. So, it means that if a family cannot afford quality child care and therefore chooses a minimal-cost child care option, their child care expenses may prevent them from being designated as “poor.”

In other words, by not treating child care as a necessary family expense, we will end up in the perverse situation of counting families who place their children in low-cost, or no-cost, care options as “better off” than families who put their children in higher cost – and higher quality – care that is known to lead to better outcomes for children

The treatment of medical expenses presents a similar, but in some ways very different, situation, which we will leave to other experts to address.

Do these issues mean that we should abandon the NAS approach and work toward something better? Absolutely not. As long as we agree that the draft bill provides the U.S. with a better measure of income poverty than we have now – and that this is only a beginning – then NCCP believes that we should move forward.

Concluding Comments

So here’s the bottom line – why should the U.S. update the poverty measure along the lines stipulated in the draft bill?

Here are three compelling reasons:

- 1) For all the reasons stated above, it is absolutely necessary that the U.S. have a better, more up-to-date, and more accurate picture of income poverty. Not only is it doable, it’s long overdue.
- 2) There is almost universal agreement among social scientists that the NAS recommendations would provide the nation with a far more useful poverty measure than the current one. And pragmatically, the NAS approach is viewed as the most viable option for creating a bipartisan political consensus around a new measure.
- 3) Finally, the draft bill rectifies an old problem: developing measures of income poverty – and other related measures – should be under the purview of the Census Bureau. By finally giving Census “ownership” of poverty statistics, they will be in the hands of a government agency that has traditionally been shielded from partisan battles.

Let’s adopt a modern measure of income poverty and then move on with the many challenges ahead – including the measurement of other indicators of the health and well-being of our nation’s citizens – especially the youngest among us.

References

- Allegretto, Sylvia A. 2005. *Basic Family Budgets: Working Families' Incomes Often Fail to Meet Living Expenses Around the U.S.* Washington, DC: Economic Policy Institute.
- Amey, Cheryl. 2000. *Families Struggling to Make it in the Workforce: A Post Welfare Report.* Washington, DC: Children's Defense Fund.
- Bernstein, Jared. 2007. *More Poverty than Meets the Eye* (Economic Snapshots April 11, 2007). Washington, DC: Economic Policy Institute.
- Bernstein, Jared, Chauna Brocht, and Maggie Spade-Aguilar. 2000. *How Much is Enough? Basic Family Budgets for Working Families.* Washington, DC: Economic Policy Institute.
- Cauthen 2007 testimony.
- Boushey, Heather, Chauna Brocht, Bethney Gundersen, and Jared Bernstein. 2001. *Hardships in America: The Real Story of Working Families.* Washington, DC: Economic Policy Institute.
- Cauthen, Nancy K. 2002. *Policies that Improve Family Income Matter for Children.* New York, NY: National Center for Children in Poverty, Mailman School of Public Health, Columbia University.
- Cauthen, Nancy K. 2007. *Testimony on Measuring Poverty in America.* Prepared for the House Ways and Means subcommittee on Income Security and Family Support.
- Cauthen, Nancy K. and Sarah Fass. 2008. *Measuring Poverty in the United States.* New York: National Center for Children in Poverty, Mailman School of Public Health, Columbia University.
- Douglas-Hall, Ayana and Michelle Chau. 2007. *Basic Facts About Low-Income Children Birth to Age 18.* New York: National Center for Children in Poverty, Mailman School of Public Health, Columbia University.
- Gershoff, Elizabeth T., J. Lawrence Aber, C. Cybele Raver, and Mary Clare Lennon. (2007). Income is not enough: Incorporating material hardship into models of income associations with parent mediators and child outcomes. *Child Development*, 78, 70-95.
- Holtzer, Harry, Diane W. Schanzenbach, Gregory J. Duncan, and Jens Ludwig. 2007. *The Economic Costs of Poverty in the United States: Subsequent Effects of Children Growing Up Poor.* Washington, DC: Center for American Progress.
- Iceland, John and Kurt Bauman. 2007. Income Poverty and Material Hardship: How Strong is the Association? *The Journal of Socio-Economics* 36, 376-396.
- Knitzer, Jane. 2007. *Testimony on the Economic and Societal Costs of Poverty.* Prepared for the Committee on Ways and Means, House of Representatives.
- Pearce, Diana M. 2001. The Self-Sufficiency Standard: A new tool for evaluating anti-poverty policy. *Poverty & Race*, 10(2).
- Shonkoff, Jack P. Deborah A. Phillips. (Eds.). National Research Council & Institute of Medicine. (2000). *From Neurons to Neighborhoods: The Science of Early Childhood Development.* Washington, DC: National Academies Press.