

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

DATE: August 2, 1973

REPLY TO
ATTN OF: SPD/MBSunderhauf

SUBJECT: Recommendations of the Subcommittee on Updating the Poverty Threshold

- Mr. Robert Raynsford

I. Summary:

The Subcommittee recommendations are discussed under major conceptual issues involved in the construction of the poverty threshold. Until the results of recommended research are available, the Subcommittee recommends the continuation with minor modifications of the current methodology, updating of the basic relationships as soon as possible after the revised food budget becomes available during the summer of 1974, and the preparation of a revised time series for release at the time of revisions to permit comparison with the present series.

The current poverty series was hastily adapted from an experimental series developed in the Social Security Administration which was known to incorporate many arbitrary assumptions. To overcome these deficiencies the Subcommittee recommends a long-term statistical research effort which will provide the basis for the development and evaluation of improvements in the measurement of poverty. In developing this research agenda the Subcommittee has drawn heavily on the findings of the Poverty Level Review Committee whose recommendations were prepared in 1968-69. Specific areas which have been identified as needing research include: the development of consumption standards for medical care, housing, and transportation; obtaining information concerning the consumption patterns of the poor with regular updating; determining whether a CPI should be developed for the poverty population; assessing on the basis of consumption patterns and family budgets whether regional series should be developed, and assessing the impact of alternative assumptions on the poverty count.

Efforts to develop measures suitable for evaluating the need for certain programs of particular importance to the poor should receive a high priority. The present use of the general purpose broad measure of poverty as an indicator to justify the allocation of Federal funds and evaluate program results necessarily results in serious mis-statements of the relative and absolute needs of the poor with respect to the program areas such as medical care, housing, and income maintenance.

II. Poverty as a Relative or "Absolute" Measure:

An absolute measure of poverty was favored by the Subcommittee because of the advantage of having a yardstick of fixed length for measuring changes in the poverty population. The current poverty concept fulfills

this requirement because it has used basically the same set of definitions and relationships since the first public release of the series in 1965. A second reason for retaining the current approach in estimating the poverty population is public acceptance of the current series.

However, retaining the series in its current form without updating the basic relationships would result in its becoming less and less reflective of current nutritional standards and consumption patterns. As a workable position between having an out-of-date absolute measure and an up-to-date measure which is difficult to use for making comparisons over time, the Subcommittee recommends that the relationships contained in the poverty series be updated at intervals of approximately ten years. At the time the series is updated, data for the preceding ten years should be recalculated on the revised basis so that a sufficient record is available for the calculation of trends.

III. Food as the Basic Building Block:

The cost of a family food budget still appears to represent the firmest foundation for construction of the poverty threshold. Its advantages are: (1) food budgets are based on independent standards of nutritional adequacy translated into food budgets through a series of steps which can be examined for their reasonableness and quantitative effect; and (2) food purchases may be increased or decreased by very small amounts, and, thus, make possible a relatively fine adjustment for differences in family composition. Ideally, the poverty threshold should be built up from the costs of achieving minimal standards of living for at least the major expenditure categories of food, medical care, housing and transportation.

The need for progress toward the ideal is given emphasis by the fact that obtaining sufficient food is decreasing in importance as a problem for low-income families. Before minimum allowances for broad expenditure categories other than food are incorporated into the threshold, however, standards of adequacy need to be developed.

In addition, the Subcommittee feels that more information on spending patterns of the low-income population could provide the foundation for research relevant to better definition of the poverty threshold. Furthermore, an annual consumer expenditure survey could help to provide information on how families at different income levels adjust their spending patterns in response to changing prices and other factors.

Assuming that the food budget is retained as the basic building block for the poverty threshold, the logical time for the earliest updating of the threshold would be after the 1974 revision of the economy food plan.

IV. Adjustment for Price Changes:

The Consumer Price Index should continue to be used to adjust the poverty threshold for price changes, because it is the only measure of price change readily published and recognized. However, reconsideration should be given to developing a CPI specifically applicable to the low-income population as was recommended by a technical report on the issue in 1968.

V. Geographic Variation:

Because of the limited data available suitable for making place-to-place comparisons of costs of living, introduction of regional poverty indexes or allowing variation in the threshold by size of metropolitan area is not practical at this time. Even with availability of data, however, the desirability of introducing such variation is open to question. Moreover, the Subcommittee recommends deletion of the current differentiation between farm and nonfarm poverty thresholds.

Regional differences in the cost of living result to some extent from variations in the availability of services such as medical care facilities and differences in the general level of economic activity. The rationale for correcting for such differences would need to be worked out and the significance of differences determined prior to the introduction of regional adjustments. Research on the consumption patterns of the poor and standards for judging the adequacy of categories is needed to provide the basis for consideration of regional differences.

Much of the pressure for the development of regional variation in the poverty threshold derives from the use of the poverty measure in formulas for distributing Federal program dollars and for judging the adequacy of State welfare standards. The Subcommittee believes that while the use of poverty statistics in allocation formulas is widespread, regional variations for program purposes should be based on the development of eligibility formulas suited to the circumstances of each program and not on regional variations in the statistical measure of poverty. The advantage of developing separate eligibility criteria as opposed to reliance on a broad measure such as the poverty measure can be seen, for example, in the fields of welfare and health care. In determining the appropriate welfare support level, variations in the local earnings level might be considered in order to avoid disincentives for working. On the other hand, a measure more appropriate to the determination of the adequacy of health services would be direct measures of the health of the population.

With respect to the discontinuance of farm and nonfarm differential in the poverty threshold the reasons for this recommendation are that: (1) only a small proportion of the population is involved and (2) the rationale for difference is based partially on the presumption of the

relative importance of income in-kind for farm families. Inclusion of income in-kind would be an appropriate step which could largely eliminate any need for a farm, nonfarm differential. Any further justification would have to be based on evidence that farm costs of living are, in fact, lower than nonfarm. This evidence does not exist. Insofar as some budget items may be less expensive for farm families, any resulting reductions in cost of living may be offset by inferior availability or higher prices of other budget items.

VI. Multiplicative Factor:

As indicated above, the cost of a family food budget appears to continue to represent the firmest foundation for constructing of the poverty threshold, taking into consideration the prospective availability of data. Consequently, the Subcommittee favors retaining the practice of using the income to food expenditures ratio as the basis of the multiplier by which the poverty threshold is estimated.

The issues with regard to the derivation of the income to food factor relate to the need for consistency in the definitions of the incomes and expenditures used in deriving and applying the factor, the choice of an appropriate expenditure survey, and whether the factor should be based on the expenditure pattern of the poor population or on the expenditure pattern of the entire income distribution.

The factor by which the food budget is multiplied to obtain the poverty threshold should be consistent with the income definition used for the full income distribution. Thus, if noncash income is included in the income distribution, it should be included in both parts of the food to nonfood factor.

Several options were considered in the choice of appropriate expenditure survey. Among those considered were the use of the income/food expenditures given by the 1955 or 1965 food survey, use of a ratio projected from the 1955 and 1965 food surveys, and use of the 1973 Consumer Expenditure Survey. The consensus of the Subcommittee was that the ratio of income/food expenditures from the Department of Agriculture's 1965 food expenditure survey would be the most appropriate of the available choices. The food plan revision to be introduced in 1974 is based upon this 1965 survey, and change in the multiplier could be introduced simultaneously with change in the food plan.

The Subcommittee recognizes the need for more frequent studies of household food consumption surveys in order to permit evaluation of the need for basic adjustment in the poverty threshold at five year intervals, as opposed to the Subcommittee's recommended ten year revision cycle.

The Social Security Administration will be able to provide several analyses of impact relating to improvements in the poverty threshold by using the multiplier based on the 1965 survey in conjunction with the

economy food plan currently used by the Department of Agriculture; elimination of the farm, nonfarm differential; and further articulation of the poverty threshold for family sizes above seven.

The Subcommittee believes that the income to food factor should continue to be based on the ratio for all households as opposed to the ratio for the poor. Insufficient data are available concerning the consumption and nutritional patterns of the poor to warrant an attempt at a finer adjustment of the ratio. Food expenditures are divisible into small units while other components of expenditure such as housing are not, with the result that the degree of deprivation is probably imperfectly balanced between food and other items in the budget.

VII. Publications:

OMB should develop a statement, appropriate for use in publication, which can draw on previous statements concerning the limitations of applying statistical averages to individual cases, and point out the limited significance of the difference in welfare to be derived from having an income just above rather than just below the poverty level.

In Addition, the Subcommittee recommends continued publication of data for families and individuals at 125% of the poverty level.

VIII. Subcommittee Organization:

The Subcommittee met on May 11, 21, 30, June 6, 11, and 25. Members of the Subcommittee are:

Betty Peterkin	Department of Agriculture
Dan Radner	Department of Commerce (BEA)
Betty Shelburne	Department of Commerce (Census)
Murray S. Weitzman	Department of Commerce (Census)
Arno Winard	Department of Commerce (Census)
Helen Nicol	Department of Health, Education, and Welfare
Mollie Orshansky	Department of Health, Education, and Welfare
Marilyn Fine	Department of Housing and Urban Development
David Yentis	Department of Housing and Urban Development
Allen H. Lerman	Department of the Treasury
Lester Klein	Office of Equal Opportunity
Jonathan Lane	Office of Equal Opportunity
Israel Putnam	Office of Equal Opportunity
Jean Brackett	Department of Labor (BLS)

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