

*Attachment*

EXECUTIVE OFFICE OF THE PRESIDENT

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

DATE: September 4, 1973

REPLY TO  
ATTN OF: SPD/RWRaysnsford

SUBJECT: Consolidated Report of Subcommittee Chairmen: Review of Poverty Statistics

•  
THRU: Mr. Paul F. Krueger  
Mr. Robert W. Raysnsford *RWR*

The three Subcommittees have completed their initial work and made recommendations for improvement in poverty statistics whose implementation could begin immediately if adequate financial support materializes but would not be complete for several years. The report below is a coordinated set of recommendations developed at a meeting of the Subcommittee chairmen. The individual reports of the Subcommittees are appended to this report.

I. Subcommittee on the Poverty Threshold

A. Immediate action.

1. Elimination of the differential between the threshold for farm and non-farm families. This action would cause a small increase in the numbers of families officially counted as poor. The increase would be 750 thousand persons or approximately three percent.

2. All subsequent publications relating to the numbers and composition of the poor population should contain language explaining the limitations of the concept in differentiating levels of need.

B. Action within three years.

1. During 1974, the Department of Agriculture will complete work on a new economy food plan based on a 1965 survey of food expenditures and revised nutritional standards developed by the National Academy of Sciences. In order to avoid reliance on data obtained from the 1955 food survey which is nearly 20 years old, the Subcommittee recommended that the 1974 economy food plan and the multiplier implicit in the ratio of income/food expenditures for the general population in 1965 should be used to calculate revised poverty thresholds in 1974. However, the Subcommittee chairman felt that revision to the poverty series should be delayed until substantial improvements in the reporting of cash income and income in-kind can be incorporated. It is anticipated improvements in the reporting of income will be completed within approximately three years.

The justification for delay in revising the series is to avoid the situation of introducing revised poverty estimates only to have them replaced in a relatively short time by other estimates incorporating new data and procedures. The probable effect of a revision based on the 1974 economy food plan would be to increase substantially the number of

poor persons, while the introduction of in-kind income should result in a substantial decrease in the number of poor persons, assuming continued use of food as the basic building block and no change in the multiplier.

2. Statistical research effort. Several research topics may result in recommendations for change within a three-year period.

(a) Development of consumption standards for housing, medical care, and transportation analogous to the nutrition standards. Success in this endeavor might make it possible to abandon use of a multiplier applied to the food budget in the calculation of a threshold. Because of some very intractable research problems, however, the outlook for success is only fair.

(b) Analysis of consumption patterns of the poor and possible Consumer Price Index (CPI) for the poor. This project requires data from the Consumer Expenditure Survey (CES) now underway and could be completed within one year after these data become available in mid 1975.

(c) Possible introduction of regional variation. As the report makes clear, the desirability of introducing regional variation cannot be resolved entirely by research, but more analysis could be performed to define the magnitudes of variation which are implied. CES data are also required for this project.

(d) Insofar as possible, program eligibility should be related directly to measures of need for the service provided by the program rather than the general measure of poverty. One useful application of the research devoted to the development of consumption standards for housing, medical care, and transportation would be the improvement in the measurement of specific needs.

## II. Subcommittee on Cash Income

A. Action within a timeframe of one survey year. A number of

---

\* A survey year for purposes of preparation, survey field operations, processing, and analysis extends from six months before to six months after collection period.

possibilities for improving measurement of cash income within the context of the Current Population Survey (CPS) were recommended for investigation. Adoption by the Census Bureau of some of the committee proposals could lead to a definite improvement in measurement, in particular lessening the extent of income omissions. These improvements would probably reduce somewhat the numbers of persons counted as poor. (The Census Bureau estimates that financing the investigation and implementation of these possibilities will require additional permanent funding for future fiscal years beginning in FY 1974 with \$200 thousand for investigation and analysis and about \$1 million for future years for implementation.)

B. Action within two years. Within this period matching of survey data with administrative records and conducting surveys based on samples drawn from institutional lists will enable estimates to be made of the distribution of significant omissions of income not reported by the CPS. Incorporation of these results into a companion set of poverty statistics would reduce the numbers counted as poor by an indeterminate amount. (Census estimates that its annual financial requirements for this project would be about \$500 thousand.)

C. Action within three years. Institution of a household survey whose primary purpose would be collection of both cash and non-cash income, as well as selected variables on assets, liabilities and expenditures to expand the socio-economic assessment of U.S. households. This project is described more fully in the following section.

### III. Subcommittee on Non-Cash Income

#### A. Immediate action.

1. Any future publications showing income distributions which include an in-kind component should show alternative distributions covering low, high, and intermediate valuations of income in-kind. The low valuation would carry income in-kind at zero dollars, the high one at the cost to the distributor, and the intermediate one would be based on different valuation procedures, one of which can be an estimate of the net funds released for additional uses because of the in-kind component. More study and exploration of the very complex area of inquiry is required. Data to produce such distributions would require information on numbers of persons participating and eligible for particular programs, and receipt of in-kind components and consumption patterns by income class.

2. Action has already been taken to point out omission of non-cash income in statistical publications on poverty. Qualifying language which has already been used in a Census publication was consistent with subcommittee recommendation.

B. Action within three years.

Within three years, an income survey could be in a position to collect data on both cash and non-cash income so that the latter could be incorporated into the measurement of poverty and of income distribution generally. The survey might also be combined with the proposal, which has been discussed with BLS, of an annual consumer expenditure survey. The following interim steps toward completion of this objective could be made between now and 1976. Beginning in FY 1974, planning could be initiated to investigate the collection of non-cash income. Based on FY 1974 experience, an interim survey might be designed for initiation in FY 1975, if appropriate provision were made in the budget. CES experience and data would be useful in design and evaluation of this interim survey particularly if a combined income-expenditure survey is contemplated. By spring, 1976, a full income survey should be operational. (Census estimates that costs would probably range from \$250 thousand in 1974 to \$1 million in FY 1975 and \$1.5 million thereafter.) Revision of poverty measurement including the recommended changes in calculation of the threshold and incorporation of non-cash income could follow by the end of the calendar year. Prior to the institution of a household income survey as recommended above, only very partial estimates of the income equivalent of in-kind transfers are likely to be available and the Subcommittee chairmen, meeting on the question of coordination of the recommendations felt that non-cash income should not be incorporated into the poverty statistics until availability of fairly comprehensive measures. Another possibility would be introduction of a new methodology at that time based on results of recommended research, in particular, research on consumption standards. Even though non-cash income would not be incorporated into the official measure of poverty until 1976, however, analytic use could be made of information on reciprocity by income class as it becomes available. Also, as the process proceeds, it should be coordinated with but not constrained to follow the practices followed in the construction of the national income accounts.

*Bette Mahoney*  
 \_\_\_\_\_  
 Bette Mahoney, Chairman  
 Subcommittee on Measurement of Non-Cash Income

*Milo B. Sunderhauf*  
 \_\_\_\_\_  
 Milo B. Sunderhauf, Chairman  
 Subcommittee on Updating the Poverty Threshold

*Murray S. Weitzman*  
 \_\_\_\_\_  
 Murray S. Weitzman, Chairman  
 Subcommittee on Measurement of Cash Income

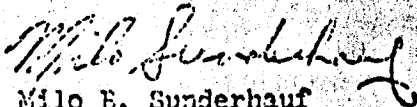
EXECUTIVE OFFICE OF THE PRESIDENT

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

DATE: October 16, 1973  
REPLY TO:  
ATTN: M.E. Sunderhauf  
SUBJECT: Consolidated Report of Subcommittee Chairmen: Review of Poverty Statistics

• Members of the Subcommittee on Updating the Poverty Threshold

Part I.B subsection 1, line 9 of the report dated September 4, 1973 should be corrected to read, "However, the Subcommittee chairmen felt that revision to the poverty series should be delayed..."



Milo E. Sunderhauf  
Chairman  
Subcommittee on Updating the  
Poverty Threshold