



Focus

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The IRP Summer Research Workshop celebrated its 20th anniversary in 2010. This meeting has become a time-honored tradition in the poverty studies community. The four-day workshop held in Madison each June brings together as many as 90 junior and senior scholars from a variety of disciplines, primarily Economics and Sociology, to discuss research related to the low-income population. Designed to build a community of research interest around topics related to the poor and their labor market connections, the workshop focuses on frontier statistical methods for the empirical study of these issues and seeks to mentor the next generation of poverty researchers. This issue of Focus is devoted to the keynote papers delivered at the June 2010 Workshop.

Progress toward improving the U.S. poverty measure: Developing the new Supplemental Poverty Measure

David Johnson

David Johnson is the Chief of the U.S. Census Bureau's Housing and Household Economic Statistics Division.

“We define poverty as economic deprivation. A way of expressing this concept is that it pertains to people’s lack of economic resources (e.g., money or near money income) for consumption of economic goods and services (e.g., food, housing, clothing, transportation). Thus, a poverty standard is based on a level of family resources (or, alternatively, of families’ actual consumption) deemed necessary to obtain a minimally adequate standard of living, defined appropriately for the United States today.”

National Academy of Science Panel on Poverty and Family Assistance, 1995¹

The official U.S. poverty measure has been calculated nearly the same way since it was first developed in the early 1960s. Criticisms of this measure as a current indicator of poverty in the United States have been well-documented: it is based only on family cash income, and uses an absolute poverty threshold that has not kept pace with changes in the standard of living and which does not differ by geographic area.

The president’s fiscal year 2011 budget provides funding to develop a new Supplemental Poverty Measure. With this funding, the U.S. Census Bureau, in cooperation with the Bureau of Labor Statistics (BLS), is developing this new measure to provide further insight into economic conditions and trends. This measure will not replace the official poverty measure, and will not be used for resource allocation or program-eligibility determination.

An Interagency Technical Working Group has provided guidance to the Census Bureau on how to develop the Sup-

The Institute for Research on Poverty has long committed itself to improved poverty measurement (see <http://www.irp.wisc.edu/faqs/faq2.htm#reading>). This issue of Focus summarizes recent news on this issue, which was presented in the opening session of the 20th annual IRP Summer Research Workshop. In the first talk, David Johnson, chief of the Census Bureau's Housing and Household Economic Statistics Division, spoke about the new federal Supplemental Poverty Measure (SPM). IRP researchers presented the second talk, which described new research on poverty measurement at the state level and presented the first results from the new Wisconsin Poverty Model (see <http://www.irp.wisc.edu/research/wipoverty.htm#wipovreports>). The Wisconsin Model is part of a new genre of state and local measures using National Academy of Sciences and SPM-related guidelines. More on the creation of state and local measures can be found at <http://www.irp.wisc.edu/research/povmeas/regional.htm>.

—Timothy M. Smeeding, IRP Director

plemental Poverty Measure, drawing on the recommendations of a 1995 National Academy of Science report, as well as extensive research on poverty measurement that has been done over the past 15 years.² The Census Bureau and BLS will produce an initial measure using recommendations from the Working Group, and will improve the measure over time as new data, new methods, and additional research become available.

Poverty threshold

The threshold for the official poverty measure is based on the cost of a minimum food diet for a two-adult and two-child family in 1963, multiplied by three in order to cover all other expenses. In contrast, the supplemental measure uses data from the BLS Consumer Expenditure Survey to calculate expenditures over the most recent five years on food, clothing, and shelter including utilities and all mortgage expenses (FCSU). The supplemental measure threshold is the 33rd percentile of the distribution of all consumer units with exactly two children plus 20 percent to cover all other expenses.³

Family type

The official measure has separately developed thresholds by family type, and uses lower thresholds for elderly singles and couples. In the supplemental measure, a reference family threshold is adjusted using a three parameter equivalence scale, which assumes that children need less than adults, and also incorporates economies of scale for larger families.

Economic unit of analysis

The unit of analysis for the supplemental measure is more detailed than that used for the official measure, which is

based on families, with unrelated individuals residing at the same address being considered separately. For the supplemental measure, the economic unit of analysis is all related individuals who live at the same address; co-resident unrelated children who are cared for by the family (such as foster children); and any cohabitators and their resident children.

Shelter type

The official measure includes no adjustment for shelter type. In contrast, the supplemental measure applies adjustment factors to the shelter component of the FCSU threshold to reflect relative expenditures of housing groups. There are three separate thresholds: for renters; homeowners with a mortgage; and homeowners without a mortgage.

Geographic area

Again, the official measure includes no adjustment for geographic area. The supplemental measure does, adjusting for housing cost differences using five years of American Community Survey data on rental costs. The supplemental measure also includes adjustments for each Metropolitan Statistical Area (MSA) and non-MSA in each state. Finally, the Census Bureau in cooperation with BLS will continue to research interarea price indices in order to refine the geographic adjustment techniques.

Family resource definition

The official measure is based on gross (before-tax) cash income from all sources using data from the Annual Social and Economic Supplement of the Current Population Survey (CPS). The supplemental measure also begins with gross cash income from the CPS, but adds the value of near-money federal in-kind benefits for FCSU such as Supplemental

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Nutrition Assistance Program assistance (formerly food stamps) and housing subsidies, as well as tax credits such as the Earned Income Tax Credit. The supplemental measure also subtracts income and payroll taxes and other nondiscretionary expenses such as child care, work-related expenses, child support payments, and out-of-pocket medical care expenses including health insurance premiums.

Method for updating poverty threshold

The official poverty threshold uses the 1963 level, updated annually for price changes with the Consumer Price Index for All Urban Consumers. As stated above, the supplemental poverty threshold will be recalculated annually using data from the BLS Consumer Expenditure Survey from the most recent five years. Factors used to adjust thresholds by housing status and for interarea price variation will also be recalculated regularly.

Next steps

An Interagency Steering Committee and a Census and BLS development and implementation team are being created. The Census Bureau and BLS will continue to work with the research community and the general public to obtain comments on this new measure. As part of this conversation, a Federal Register Notice was posted to solicit comments, and the Census Bureau will post these comments and responses on their new Supplemental Poverty Measure Web site later this year.⁴ In addition, the Bureau has participated in academic conferences such as the Association for Public Policy Analysis and Management Annual Research Conference and the American Economic Association meetings. Finally, the Bureau will post a variety of methodological documents describing the details of this new supplemental measure. These documents will include papers on the thresholds, poverty rates, geographic indices, taxes, housing subsidies, child care, work expenses, the unit of analysis, and the use of new survey questions on child support, mortgage status, and medical out-of-pocket expenditures.

If the president's fiscal year 2011 budget is approved, the first Supplemental Poverty Measure will be released on the same day as the official poverty measure in September 2011. As mentioned above, official poverty estimates will continue to be used for allocations of federal funds and as guidelines for program eligibility, and the supplemental measure will provide a new gauge of the economic well-being of American families and the effectiveness of federal antipoverty programs. ■

¹C. Citro and R. Michael, eds., *Measuring Poverty: A New Approach* (Washington, DC: National Academy Press, 1995).

²More information may be found at the U.S. Census Bureau Poverty Web site www.census.gov/hhes/www/poverty/poverty.html.

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The purpose of *Focus* is to provide coverage of poverty-related research, events, and issues, and to acquaint a large audience with the work of the Institute by means of short essays on selected pieces of research. Full texts of Discussion Papers and Special Reports are available on the IRP Web site.

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Edited by Emma Caspar

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³The expenditures for other family sizes (for example, those with one adult and two children) are adjusted (using equivalence scales) to be similar to those of a two-adult and two-child family unit.

⁴See <http://www.census.gov/hhes/www/povmeas/povmeas.html>.