



THE CITY OF NEW YORK  
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House Ways and Means Subcommittee  
On Income Security and Family Support

Testimony on  
Measuring American Poverty

*The Need for Federal Action to  
Improve the Nation's Poverty Measure  
Lessons from New York City*

Presented By

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Chairman McDermott, Ranking Member Weller and distinguished members of the Committee, I am Mark Levitan, Director of Poverty Research for the City of New York's Center for Economic Opportunity. Thank you for the opportunity to offer testimony on behalf of the City of New York.

My remarks will address three questions:

- Why did the City create an alternative to the Census Bureau's official poverty measure for New York?
- Why did New York follow the alternative recommended by the National Academy of Sciences Panel on Poverty and Family Assistance?
- And finally, what are the implications of our project for improving the federal poverty measure?

### **WHY A NEW MEASURE**

In March of 2006, Mayor Michael Bloomberg established a Commission for Economic Opportunity. The Commission was charged with the task of crafting a set of new initiatives aimed at reducing poverty in New York City. In the course of their work its members grew increasingly frustrated with the data and conceptual tools at their disposal. They came to regard them as inadequate guides for understanding the level of economic deprivation in New York, assessing the effect of current public policy, and forecasting the potential impact of new policy initiatives on the City's low-income population. The Commission concluded that, along with programmatic innovations to reduce poverty, the City needed to improve the tools that measure it.

The Mayor shared the Commission's frustration and endorsed their recommendation, and poverty measurement became one of the new projects initiated by the City of New York's Center for Economic Opportunity (CEO). We began by reviewing the current poverty measure, developing a sense of its shortcomings and establishing a set of criteria for an alternative. Then we began to look at specific measurement options. We concluded that the City should base its alternative poverty measure on a set of recommendations that, at the request of Congress, had been developed by the National Academy of Sciences' (NAS) Panel on Poverty and Family Assistance.<sup>1</sup>

Over the past year the staff of the Center for Economic Opportunity has worked to create a measure of poverty that implements the NAS Panel's alternative. On July 13, 2008, Mayor Bloomberg announced some of our initial findings, discussed in more detail below.

We believe we have developed a better tool for understanding poverty and anti-poverty policy in New York City. We hope that other localities move in a similar direction. But the reason I am before you today is because we believe that our efforts are no substitute for a change in the way that the Federal government's statistical agencies measure poverty.

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<sup>1</sup> National Research Council, Panel on Poverty and Family Assistance. *Measuring Poverty: A New Approach*. Constance F. Citro and Robert T. Michael, eds. Washington, DC: National Academy Press, 1995.

## **Shortcomings of the Current Measure**

The Census Bureau measures poverty by comparing a family's total pre-tax cash income against a set of thresholds (the poverty lines) that vary by family size and composition. Income is defined as cash received from any source. This includes earnings, investments, pensions, and insurance, as well as government transfers such as social security and means-tested assistance, as long as they take the form of cash. The threshold levels rise as the number of family members grows. For example, the 2006 Census threshold for a family of one adult and two children was \$16,227, while for a two-adult, two-child family it stood at \$20,444.<sup>2</sup> If a family's income falls below the threshold, each of the family members is classified as poor. The poverty rate is the proportion of the total population that is living in families with incomes below the poverty line.<sup>3</sup>

The apparent simplicity of this measure – a straightforward definition of resources and a yardstick against which they are measured – masks a number of significant deficiencies. As a recent review aptly concluded, “The United States got itself the worst of all worlds – an increasingly mean measure of poverty that also suggested that U.S. social programs were not making a difference when they were.”<sup>4</sup>

### ***Limitations of the resource measure***

Pre-tax cash income is an increasingly incomplete indicator of the resources a family may use to attain an acceptable standard of living. Income is taxed and the portion that goes to government reduces what is available to families. But government also uses refundable tax credits (such as the Earned Income Tax Credit) to supplement family income. Cash income also fails to account for the effect that “near-cash” benefit programs have on living standards. Food Stamps or Section 8 housing vouchers, for example, are used as if they were money by low-income families to meet their nutritional and shelter needs. They free recipients' cash income for other necessities such as clothing or transportation. Tax credits and near-cash benefits are an increasing share of government anti-poverty expenditures; Federal spending on Food Stamps, housing subsidies, and the Earned Income Tax Credit, for example, each dwarfs expenditures for traditional cash assistance.<sup>5</sup> As a result, ever more of what government does to provide support to low-income families is uncouned by the Census Bureau's poverty measure.

### ***Limitations of the threshold concept***

The Census Bureau's income thresholds are problematic in different ways. They are based on work done in the early and mid 1960s for the Social Security Administration and reflect spending levels specified in the U.S. Department of Agriculture's “Economy Food Plan,” a diet for “temporary or emergency use when funds are low.” Because the survey data available at that

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<sup>2</sup> U.S. Census Bureau, Poverty Thresholds 2006.

<sup>3</sup> A more detailed explanation for how the Census Bureau measures poverty is available at: <http://www.census.gov/hhes/www/poverty/povdef.html>

<sup>4</sup> Glennerster, Howard. “United States Poverty Studies and Poverty Measurement: The Past Twenty-Five Years,” *Social Science Review*, March 2002.

<sup>5</sup> U.S. Bureau of the Census. *Statistical Abstract*. 2007.

time indicated that families typically spent a third of their income on food, the thresholds were set at three times the cost of the food plan. With the exception of some minor revisions, the only change in the thresholds since they were officially adopted in 1969 is that the Census Bureau updates them annually by the change in the Consumer Price Index.<sup>6</sup>

More than four decades later, these poverty thresholds have become an anachronism. First, they no longer reflect spending patterns. Food now accounts for little more than one-eighth of family expenditures. Also, housing is the largest major item in a typical family's budget, representing nearly one-third of total spending.<sup>7</sup>

Another of the thresholds' shortcomings is that they are uniform across the nation. The poverty line that defines who is poor in New York City is the same poverty line that applies in rural Mississippi. The need to account for differences in living costs across the nation is an obvious concern in New York City, where high housing costs (at 2.6 times those in Carroll County, Mississippi) put a tight squeeze on family budgets.<sup>8</sup>

A third issue concerning the thresholds is their declining value relative to the income level enjoyed by American families in the economic mainstream. Because they are only adjusted to reflect the rising cost of living, the poverty lines take no account of the rise in the standard of living. When first introduced, the poverty line for a family of four equaled roughly fifty percent of median income for a family of that size. Today this threshold is less than thirty percent of that median.<sup>9</sup>

A frozen-in-time measure fails to recognize that what is considered an adequate standard of income always reflects social norms at a particular time and place. Expert estimates of income adequacy levels, as well as public opinion as to what constitutes enough income to "get by," increase at roughly the same pace as increases in median family income.<sup>10</sup> What the experts and the public understand is poverty's social dimension. Poverty entails not only an inability to obtain a physiologically minimum level of consumption, such as enough food to avoid malnutrition, but also the inability to obtain a level of consumption that allows people to fulfill the social roles customary to children or adults in a modern society. As incomes grow for most American families, and as society becomes wealthier and more technologically complex, the resources required to be successful at school or the workplace, to be an able parent or an informed citizen rises.

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<sup>6</sup> Fisher, Gordon. "The Development and History of the Poverty Thresholds" *Social Security Bulletin* Vol. 55 No. 4., 1992. Available at [www.ssa.gov/history/fisheronpoverty.html](http://www.ssa.gov/history/fisheronpoverty.html).

<sup>7</sup> Family expenditure shares are computed for a consumer unit consisting of a husband and wife with children from data in "Consumer Expenditures in 2005." U.S. Department of Labor, Bureau of Labor Statistics, Report 998, April 2007.

<sup>8</sup> This is the ratio of the US Department of Housing and Urban Development's Fair Market Rents for 2007.

<sup>9</sup> Ziliak, James. "Understanding Poverty Rates and Gaps: Concepts, Trends, and Challenges." *Foundations and Trends in Microeconomics*. 1 (3), 2006.

<sup>10</sup> Fisher, Gordon. "Is There Such a Thing as an Absolute Poverty Line Over Time? Evidence from the United States, Britain, Canada, and Australia on the Income Elasticity of the Poverty Line." U.S. Bureau of the Census. Poverty Measurement Working Papers, August 1995. Available at [www.census.gov/hhes/www/povmeas/papers/elastap4.html](http://www.census.gov/hhes/www/povmeas/papers/elastap4.html). Blank, Rebecca M. 2008. "How to Improve Poverty Measurement in the United States." *Journal of Policy Analysis and Management*. Vol. 27(2) Spring.

## Criteria for an Alternative

CEO reviewed a wide variety of alternative approaches to measuring poverty. Our thinking was guided by several criteria.

1. The new measure should be easily understood by the “non-expert” public. This suggested that rather than a radical departure from the familiar, if flawed, official measure, a new approach should maintain its structure (economic resources measured against a set of thresholds that are derived from expenditures on necessities), but seek to improve its component parts. Specifically the new measure should:
  - A. Provide a more complete measure of resources.
  - B. Employ thresholds that reflect differences in living costs across the country and are updated in a manner that takes account of the long-term rise in living standards.
  - C. Provide a poverty rate, a count of what fraction of the city’s or nation’s population is living below the poverty line.
2. The new measure should be grounded in a substantial body of research and should be supported by experts in the field. Poverty measurement is a controversial topic. The credibility of a “CEO poverty measure” would rest, in part, on the degree to which it is based on research by, and consensus among, expert analysts.
3. The new measure should be a better tool for policymaking. The call for new measures of poverty came out of the frustrations experienced by people who wanted to design policies that address it. CEO put a premium on the extent to which a new measure could capture the impact of public policy.
4. A new measure should be practicable, that is, the City must be able to turn a better idea into an annual measure and do so at a reasonable cost.

## WHY THE CITY CHOSE THE NAS METHODOLOGY

CEO concluded that it should base its alternative poverty measure on a set of recommendations that, at the request of Congress, had been developed by the National Academy of Sciences’ (NAS) Panel on Poverty and Family Assistance.<sup>11</sup> While the Federal government has yet to adopt these recommendations (except on an experimental basis), they have received extensive scrutiny by government researchers and university-based scholars.<sup>12</sup> The NAS methodology is widely regarded as a far superior measure of poverty compared with the official measure. (A side-by-side comparison of the official and NAS recommended measure is provided in Figure One).

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<sup>11</sup> National Research Council, Panel on Poverty and Family Assistance. *Measuring Poverty: A New Approach*. Constance F. Citro and Robert T. Michael, eds. Washington, DC: National Academy Press, 1995.

<sup>12</sup> Much of this research is available at <http://www.census.gov/hhes/www/povmeas/nas.html>.

*The NAS Panel's recommendations in brief*

1. Changes to the poverty threshold: The NAS panel recommended that the poverty thresholds reflect the amount a family needs for food, clothing, shelter, and utilities, rather than the costs of just one basic need. Specifically, the threshold should be set to equal roughly 80 percent of median family expenditures on this market basket of necessities, plus “a little more” for other necessities. The panel proposed that these thresholds be updated annually by the change in median family expenditures, ensuring that over time the poverty line reflected the long-term rise in the nation’s standard of living. In addition, the NAS suggested that the thresholds be adjusted geographically to reflect differences in the cost of living across the U.S.
2. Changes to the definition of resources: The NAS panel suggested that a much more inclusive definition of family resources be used for comparison to the new thresholds. In addition to cash income, the resource measure should account for the effect of tax liabilities and credits, along with the cash value of “near-cash” benefits. The panel also recommended that resources should be adjusted to reflect necessary work expenses such as commuting costs and child care. Finally, the panel proposed that medical out-of-pocket expenses should also be subtracted from income, because what a family must spend to maintain its health is unavailable for purchasing other necessities.

**FIGURE ONE: COMPARISON OF POVERTY MEASURES**

	<b>CURRENT POVERTY MEASURE</b>	<b>NATIONAL ACADEMY OF SCIENCES RECOMMENDATION</b>
<b>THRESHOLD</b>	Established in the mid-1960s at three times the cost of “Economy Food Plan.”	Equal to roughly 80% of median family expenditures on food, clothing, shelter and utilities, plus “a little more” for misc. items.
	Adjust annually by change in Consumer Price Index.	Adjust annually by change in median family expenditures for the items in the threshold.
	No geographic adjustment.	Adjust geographically using differences in housing costs.
<b>RESOURCES</b>	Total family <i>pre-tax</i> cash income.	Total family <i>after-tax</i> income.
		Include the value of near-cash, in-kind benefits such as Food Stamps.
		Subtract work-related expenses such as child care and transportation costs.
		Subtract medical out-of-pocket expenses.

## WHAT HAVE WE LEARNED FROM OUR WORK?

Over the past year the City has developed a poverty measure that adopts the NAS recommendations to the Census Bureau’s American Community Survey. Mayor Bloomberg announced some of our results on July 13, 2008. The CEO poverty measure captures a fuller array of the resources available to low-income families as they strive to meet their basic needs. That is essential to understanding poverty. It also places those resources in the context of New York’s high cost of living. And that is essential to understanding the *adequacy* of our anti-poverty efforts.

Using a geographically-adjusted threshold that equals \$26,318 for a family of two adults and two children and a more comprehensive definition of income, we find that under our new measure, the New York City poverty rate for 2006 is 23.0 percent.<sup>13</sup> The corresponding rate using the official methodology is 18.9 percent.<sup>14</sup> That is an attention-getting difference, but it becomes truly meaningful as we sift through the details to locate how the change in methodology affects specific groups within the City. (See Table One).

**Table One: Comparison of Poverty Rates,  
Using CEO and Official Methods**  
(Numbers are percent of group in poverty.)

	CEO	OFFICIAL	Percentage Point Difference
NYC Total	23.0	18.9	4.1
By Age Group			
Under 18	26.6	27.2	-0.6
18 thru 64	20.0	14.5	5.5
65 & up	32.0	18.1	13.9
Children (under 18), by Family Type			
Two parents	17.2	16.5	0.7
One parent	41.6	44.4	-2.8

Source: CEO tabulations from the American Community Survey, 2006.

One of the most striking results from our work is that the poverty rate for elderly New Yorkers (persons 65 and older) changes from 18.1 percent under the official Census measure to 32.0 percent under the CEO measure. The poverty rate for children, in contrast, hardly changes; it is

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<sup>13</sup> Following the NAS recommendations our income measure includes the effect of taxation, adds the value of nutritional and housing assistance, and subtracts work-related and medical out-of-pocket expenses.

<sup>14</sup> This is lower than the 19.2 percent rate reported by the Census Bureau because we must exclude people living in group quarters in our measure.

27.2 percent under the official measure and 26.6 percent under our alternative. Digging deeper, we find that the poverty rate for children living in single parent families is considerably lower with our measure than under the official one, 41.6 percent compared to 44.4 percent. What these results are telling us is that, even in the context of a more realistic poverty threshold, public programs -- specifically the formerly uncounted tax credits, nutritional subsidies, and housing assistance -- are lifting some children out of poverty in ways that could not be seen under a measure that did not count these resources. The results also suggest that medical out-of-pocket spending is a considerable burden to low-income seniors.

Findings like these will serve a variety of purposes; most importantly, they will inform strategic planning by agencies across City government. Further reports that track changes in poverty rates over time will increase the usefulness of our work.

Some might conclude that the lesson from our experience is that the Federal government should stand aside and let local governments develop poverty measures that address local priorities. The City believes that this would be a grievous mistake.

First, it is not practical. Few local governments have the resources available to the City of New York. Second, even if a number of states or localities develop new poverty measures, the result will inevitably lead to a variety of different approaches that will make comparisons between them confusing to the public. Even among researchers that are closely identified with the National Academy of Sciences' recommendations, there are differing approaches to issues such as accounting for healthcare spending, childcare needs and the valuation of homeownership and subsidized housing programs for low-income renters. Not everyone will agree with all of our choices in detail, and for good reason; as we weighed the options it became clear that there are strong arguments that could be made for a number of different approaches.

We would be pleased if everyone agreed with our decisions about these issues. But while we in the City of New York are eager to share our work and encourage other local efforts, *we can not create a standard methodology for the nation*. Providing resources to local governments and setting national standards are a fundamental responsibility of the Federal government.

I would include another task for the Federal statistical agencies, one that is not yet been addressed, to my knowledge, by any proposed legislation. The expertise of the Census Bureau and other statistical agencies is needed to improve the usefulness of the American Community Survey (ACS) in measuring poverty. The survey is *the* Census Bureau product for measuring socio-economic conditions at a local level. The size of the sample in the Bureau's other surveys, such as the Current Population Survey or the Survey of Income and Program Participation, precludes their provision of local-level data. Increasing the sample for these surveys enough to allow representative local-area data that could be issued on an annual basis is impractical.

Unfortunately, the ACS did not exist when the NAS Panel was developing its recommendations, and it was not designed to generate a measure of poverty consistent with the NAS method. The Census Bureau, along with other Federal statistical agencies, should take a number of steps that would make the ACS more useful in this regard. Adding questions about residence in public housing, receipt of tenant-based housing assistance, and the use of childcare would be very

helpful. The survey should also retain the question on Food Stamp receipt. Given the nature of the survey, however, the number of new questions that can be added is clearly limited.

So in addition, the Census Bureau should develop imputation techniques for use with the American Community Survey (ACS) as it has with the Current Population Survey (CPS).<sup>15</sup> This would include models that can estimate tax liabilities and credits, medical-out-of-pocket expenses, and child care costs. Because we have employed the ACS as our principal source of data for measuring resources, we have had some experience with this work. We were able to make good use of the estimation procedures that the Census Bureau and other researchers have developed for the Current Population Survey. I believe our work demonstrates the practicality of this proposal. But while I am proud of what we have done in this regard, I have no doubt that it can be improved upon.

### **CONCLUSION**

The City of New York urges Congress to take the actions needed to improve upon the Nation's measure of poverty. We believe the direction taken in the draft legislation entitled the Measuring American Poverty Act of 2008 would be an important step forward. We would be pleased to offer our experience in anyway that can be helpful, but – to underscore my earlier remarks – local efforts can not substitute for Federal action.

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<sup>15</sup> An explanation of much of this work is provided in Short, Kathleen, Thesia Garner, David Johnson, and Patricia Doyle, *Experimental Poverty Measures: 1990 to 1997*, U.S. Bureau of the Census. 1999.