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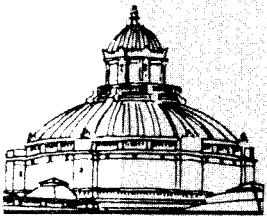
Issue Brief

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PROGRESS AGAINST POVERTY (1959 TO 1983): THE RECENT POVERTY DEBATE

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ISSUE DEFINITION

Over the last quarter century, poverty in the United States has been considerably reduced. From 1978 to 1982, however, the poverty rate increased dramatically. The rate of increase abated somewhat in 1983.

In 1983, 35.3 million people, 15.2% of the population, were considered poor by the official definition. The poverty rate was 33% higher than when it began to rise in 1978, and was at its highest level since 1965, but 32% lower than its first measured level in 1959. About 900,000 more people were counted as poor in 1983 than in 1982. While the number of poor increased over this period, so too did the size of the population as a whole. Consequently, the poverty rate in 1983 was about the same as in 1982 -- 15.2% compared to 15.0%. This change is judged to be statistically insignificant.

The recent trend has stirred considerable debate among scholars and policy makers alike. The debate has focused on a number of issues, including the way in which poverty is measured, how the economy and income transfer programs affect poverty, and how different groups in the population have fared over time relative to the poverty standard.

BACKGROUND AND POLICY ANALYSIS

HISTORICAL BACKGROUND

The Census Bureau began counting the poor in the mid 1960s, after President Johnson declared "an unconditional war on poverty." In tandem with the President's 1964 declaration, the Council of Economic Advisors (CEA) addressed the problem of poverty in its annual report -- proposing the use of a measure to help identify the low income population and the problems they face, to provide policy guidance, and to help gauge past and future progress toward the goal of eradicating poverty. The measure proposed by the CEA was elaborated on by Dr. Mollie Orshansky of the Social Security Administration. As early as 1965, the "Orshansky poverty guidelines" were being used by various Government agencies, for administrative and planning purposes, but it was not until 1969 that the measure become official.

Presently, the Federal Government uses two slightly different definitions of poverty. One, the statistical definition, is maintained and updated by the Census Bureau and is used to arrive at official estimates of the number and characteristics of the poverty population. Census Bureau poverty estimates are also used to distribute Federal funds to States under various programs. Each fall the Census Bureau releases its report on poverty from the March Income Supplement to the Current Population Survey (CPS). In addition to the statistical definition, the Department of Health and Human Services, using a method developed by the Office of Management and Budget (OMB), is responsible for maintaining the "Federal poverty income guidelines" used to determine eligibility for some Federal programs. The OMB (administrative) definition of poverty is derived from the Census Bureau definition and for a four-person family is almost identical to it. This paper examines issues and trends relating to the Census Bureau's (statistical) poverty measure.

THE OFFICIAL (STATISTICAL) DEFINITION OF POVERTY

The methods for deriving the official poverty standard, except for minor adjustments, essentially have remained unchanged since being developed originally by Mollie Orshansky in the early 1960s. The measure thereby provides a relatively consistent basis for assessing change over time.

The Census Bureau's definition provides an estimate of the amount of income required by families of varying size and composition to purchase a "minimally adequate" market basket of goods and services on an annual basis. While there is no general agreement as to what constitutes a minimally adequate standard of living, the poverty thresholds are based upon one component of consumption which most would agree is essential to maintaining a minimal standard of living -- the amount of income required to purchase a minimally adequate diet. For this purpose, the U.S. Department of Agriculture's 1961 Economy Food Plan was used to arrive at the requisite food budget which would allow a family of a given size and composition that follows the plan to purchase foods that would meet basic nutritional standards -- Recommended Daily Allowances (RDAs), established by the National Academy of Sciences, National Research Council. The plan assumes that all meals are prepared at home and all food is purchased at retail. It also assumes the consumer purchases the types and quality of food on the plan, and has skill to prepare it properly. The poverty thresholds were then estimated by multiplying the cost of the economy food plan by three (for single-person families, a slightly higher multiplier was used), to take into account other necessities such as clothing and shelter. The multiplier is based on results from the U.S. Department of Agriculture's 1955 Food Consumption Survey, which found that on average families spend one-third of their after tax cash income on food, and two thirds on all other items.

On the basis of these methods, the Census Bureau arrives at 48 (124 prior to 1981) separate poverty thresholds for purposes of counting the poor. The thresholds vary by family size and age composition. Each year, the Census Bureau adjusts the poverty thresholds for changes in prices using the Consumer Price Index (CPI). Also, the Bureau publishes average thresholds, which are produced by the 48 separate thresholds, and weighted by the share of the poverty population in each of these cells. These thresholds are shown below in Table 1. In 1983, the threshold for a family of 4 was \$10,178.

TABLE 1
Poverty Thresholds in 1983

1 person (unrelated individual).....	\$ 5,061
15 to 64 years.....	5,180
65 years and over.....	4,775
2 persons.....	6,483
Householder 15 to 64 years.....	6,697
Householder 65 years and over.....	6,023
3 persons.....	7,938
4 persons.....	10,178
5 persons.....	12,049
6 persons.....	13,630
7 persons.....	15,500
8 persons.....	17,170
9 persons or more.....	20,310

Source: U.S. Bureau of the Census, Current Population Reports,
series P-60, no. 145, p. 31.

Counting the Poor

An individual or family and its members are counted as poor if its annual before-tax cash income, as reported on the CPS, is less than the corresponding poverty threshold for that size and type of family. Several types of income are counted against the threshold, including:

Market (Pre-transfer) Cash Income: wages, salaries, farm income, interest and dividends, interfamily transfers (alimony and/or child support), private and government pensions;

Social Insurance (Pre-Welfare) Cash Income: Social security payments, unemployment compensation, workers compensation, veterans payments; and

Welfare Cash Income: Aid to Families with Dependent Children (AFDC) payments, Supplemental Security Income (SSI), State and local General Assistance (GA).

Excluded from income counted to decide who is poor: in-kind Government assistance such as food stamps, Medicare, and Medicaid, free school lunches; and in-kind fringe benefits such as employer-sponsored health benefits.

TRENDS IN THE POVERTY RATE (1959 to 1983)

The trend in the poverty rate over the last 25 years is characterized by three distinct periods. From 1959 to 1969, the poverty rate declined steadily, from a high of 22.4% to 12.1%. Over the next decade, the rate remained relatively steady, fluctuating in the 11 to 12% range. Since 1978, the poverty rate has increased each year, reaching 15.2% in 1983 -- 33% higher than in 1978 (11.4%) and the highest it has been since 1965 (see Table 2).

TABLE 2
Poverty Rates for Selected Groups (1959-1983)

CY	Total	Aged	Non- Aged Adults	Related Children Under Age 18		All Ages		
				Total	Female- Headed Fami- lies	All Other Fami- lies	Whites	Blacks
1983	15.2	14.1	12.6	21.7	55.4	13.4	12.1	35.7
1982	15.0	14.6	12.3	21.3	56.0	13.0	12.0	35.6
1981	14.0	15.3	11.3	19.5	52.3	11.6	11.1	34.2
1980	13.0	15.7	10.3	17.9	50.8	10.4	10.2	32.5
1979	11.7	15.2	9.1	16.0	48.6	8.5	9.0	31.0
1978	11.4	14.0	8.9	15.7	50.6	7.9	8.7	30.6
1977	11.6	14.1	9.0	16.0	50.3	8.5	8.9	31.3
1976	11.8	15.0	9.2	15.8	52.0	8.5	9.1	31.1
1975	12.3	15.3	9.4	16.8	52.7	9.8	9.7	31.3
1974	11.2	14.6	8.5	15.1	51.5	8.3	8.6	30.3
1973	11.1	16.3	8.5	14.2	52.1	7.6	8.4	31.4
1972	11.9	18.6	9.0	14.9	53.1	8.6	9.0	33.3
1971	12.5	21.6	9.4	15.1	53.1	9.3	9.9	32.5
1970	12.6	24.5	9.2	14.9	53.0	9.2	9.9	33.5
1969	12.1	25.3	8.8	13.8	54.4	8.6	9.5	32.2
1968	12.8	25.0	9.1	15.3	55.2	10.2	10.0	34.7
1967	14.2	29.5	10.2	16.3	54.3	11.5	11.0	39.3
1966	14.7	28.5	10.6	17.4	58.2	12.6	11.3	41.8
1965	17.3	n/a	n/a	20.7	64.2	15.7	13.3	n/a
1964	19.0	n/a	n/a	22.7	62.3	18.2	14.9	n/a
1963	19.5	n/a	n/a	22.8	66.6	18.0	15.3	n/a
1962	21.0	n/a	n/a	24.7	70.2	19.9	16.4	n/a
1961	21.9	n/a	n/a	25.2	65.1	21.0	17.4	n/a
1960	22.2	n/a	n/a	26.5	68.4	22.3	17.8	n/a
1959	22.4	35.2	17.4	26.9	72.2	22.4	18.1	55.1

Source: U.S. Bureau of the Census Current Population Reports,
series P-60, no. 145.

RECENT TRENDS IN THE POVERTY GAP

Accompanying the increase in the poverty rate over the last several years has been an increase in the poverty gap. The poverty gap, also known as the poverty income deficit, is the difference between a poor family's income and the poverty threshold. In 1983, the aggregate poverty gap amounted to approximately \$47.1 billion, which is nearly three-quarters higher, in real terms, than in 1975, when it was \$27.3 billion. The increase in the poverty gap reflects a larger number of families in poverty, as well as declining income among families that are poor. In 1975, the poverty gap per poor family member was \$1,136, but in 1983 had increased to \$1,335.

TABLE 3
Aggregate and Per Capita Poverty Gap in Selected Years*
(in 1983 dollars)

	Aggregate Gap (in millions)	Gap per Poor Family Member
1983	\$47,082	\$1,335
1982	\$45,229	\$1,315
1981	\$41,201	\$1,294
1980	\$35,270	\$1,283
1979	\$32,980	\$1,265
1975	\$27,250	\$1,136

* Poverty gap figures reported here are from special CRS tabulations of the March Current Population Surveys from 1980 through 1984, and the 1976 Survey of Income and Education (SIE). The numbers are slightly higher than those reported by the Census Bureau because of the inclusion of unrelated subfamilies.

RELATED TRENDS

Changes in the demographic composition of the population, economic conditions, and public policy towards social programs all affect the trend in the poverty rate and poverty gap. Each of these factors affecting poverty is discussed below.

Economic Trends

Wages and salaries are the largest component of personal income, so it is not surprising that poverty rates tend to follow economic trends quite closely. The period of steady decline in the poverty rate from 1959 to 1969 coincides with a period of sustained economic growth. Widespread increases in the standard of living lifted a great many Americans above the "absolute" poverty threshold; over this period per capita wage and salary income increased at an annual average rate of 3.3% per year in real terms while the poverty rate declined at an annual average rate of 6.0%. From 1969 through 1978, there was little consistent economic growth; per capita wage and salary income grew by about 1.2% per year, and the poverty rate declined by about 0.7% per year, on average.

Most analysts agree that the recent rise in poverty reflected a deteriorating trend in the economy. From 1978 to 1982 per capita wage and salary income decreased at an annual average rate of 2.2% while the poverty rate increased at an annual average rate of 7.7%. A recession beginning in January 1980, after a brief reversal, was followed by the worst recession since the Great Depression. In 1980, prices were increasing at an annual average rate of 13.5%. By 1982, the inflation rate had been cut in half, to 6.1%, but at the expense of an increasing unemployment rate; in 1982 the unemployment rate reached a post-war high of 9.7%. In 1983, the unemployment rate remained relatively high, at 9.6%, while the annual rate of inflation continued to drop to a level of 3.2%.

Demographic Trends

Demographic changes typically occur gradually, and thus tend mostly to affect the long term trend in poverty. Several demographic factors are likely to have had an impact on the trend in poverty since 1959. A doubling of the divorce rate and a tripling of the rate of out-of-wedlock births have resulted in a doubling of the proportion of children in single female headed families from 1959 to 1982. The incidence of poverty is especially high for this type of family. Thus, the increasing number of female headed families has pushed upward the overall poverty rate, and the rate among children, in particular. Another demographic change that may have affected the poverty rate was the movement of the post war baby boom generation into early adulthood, an age of relatively low income for many. Increases in longevity have resulted in a growing elderly population. Typically outside the labor force, and having to rely upon sources of income other than earnings, the elderly have, until recent years, tended to be poor.

A recent Census Bureau report estimated that the poverty rate for families in 1980 would have been 29% lower if changes in family composition had not occurred during the 1970s.

Trends in Federal Transfer Spending Affecting Low Income Persons

Government cash transfer programs play an important role in combatting poverty. Since the early 1960s, Federal social insurance expenditures such as social security and unemployment compensation have increased at a much more rapid pace than Federal cash welfare expenditures. Federal expenditures on cash social insurance programs are also much greater than Federal cash welfare expenditures -- \$202.2 billion (social security and unemployment compensation) compared to \$20.5 billion (public assistance, Supplemental Security Income, non-service connected veterans pensions) -- in FY83. After having grown by about 70%, in real dollars, from 1965 to 1975, Federal cash welfare expenditures have not grown significantly since. However, assistance to low-income persons in the form of non-cash welfare benefits, which has no affect on the number of persons counted as poor, increased considerably over the years, accounting for about 10% of total Federal welfare expenditures in 1965, 52% in 1975, and 65% in 1983.

For covered workers social insurance programs replace some of the earnings lost because of unemployment, injury or disability, or retirement. While not directed at the poor per se, social insurance programs have a much greater impact upon the reduction of poverty than do cash welfare programs, both due to the number of people receiving benefits and the level of benefits

provided. For example, in 1983, the poverty rate for the total population would have been 39% higher than the official rate (21.1% rather than 15.2%) if social security income were not counted. The effect of social security in combatting poverty among the aged is particularly dramatic. In 1983, the poverty rate for the aged would have been 49.9%, or about three and one-half times the official rate of 14.1%, if social security benefits were not counted as income.

In comparison to social insurance programs, cash welfare programs (AFDC, SSI, GA) have only a marginal effect on the number of persons counted as poor. These programs are specifically aimed at the poor. If income from these programs were not counted, the poverty rate in 1983 would have been only about 6% higher (16.1% compared to 15.2%). While not greatly reducing the number of poor, cash welfare programs are an important source of income to the poor. In 1983, cash welfare programs reduced the poverty gap by about 26%.

POVERTY RATES AMONG SELECTED DEMOGRAPHIC GROUPS

The Aged

In 1983, the poverty rate for persons age 65 and over was 14.1%. Poverty rates among the aged have declined substantially since 1959, largely as a result of expanded Government transfer programs. In 1959, the poverty rate of the aged (35.2%) was higher than either that of children (26.9%) or "non-aged adults" (17.4%). Whereas the aggregate poverty rate reached a plateau by 1969, the poverty rate of the aged continued to decline. By 1969 the aged poverty rate had dropped to 25.3%, and by 1974 to 14.6%. 1974 marked the first year in which the aged poverty rate was less than that of children; it has remained below the children's rate ever since.

Most analysts agree that the dramatic decline in the aged poverty rate from 1959 to 1974 was the result of ad hoc adjustments to social security benefits and expansion of the private pension system. The introduction of cost of living adjustments (COLAs) to help protect social security benefits against erosion from price inflation, and the establishment of the Supplemental Security Income (SSI) program in 1974, which provided a guaranteed income floor for the aged, have helped keep the poverty rate among the aged relatively constant since 1974.

Children

The poverty rate for children declined from 26.9% in 1959, to 13.8% in 1969. From 1969 to 1978, the poverty rate rose gradually, reaching 15.7% at the end of the period. The rate has grown substantially since 1978, reaching 21.7% in 1983.

The poverty rate for children in male headed families tends to be relatively low, but sensitive to the business cycle. In 1959, 22.4% of all children in such families were poor, and in 1978, only 7.9%. However, since 1978 the poverty rate for children in male headed families has grown by about two thirds, reaching the level of 13.4% in 1983. Given the strong attachment of non-aged males to the labor force, and the greater tendency for males to be employed in sectors of the economy that are sensitive to the business cycle (e.g., mining, manufacturing), the poverty rate for these children

tends to be fluctuate with economic conditions. A major portion of the increase in the poverty rate since 1978 has been a result of "non-aged male headed families" with children becoming poor.

The growth in single female headed households, combined with a high incidence of poverty among such households, has put an upward pressure on the overall poverty rate, and upon the poverty rate among children, in particular. Since 1959, the proportion of children living in single female headed families has more than doubled, from about 9% in 1959 to about 21% in 1983. Over this period, the poverty rate for children in these families has remained high. From 1959 to 1969, the poverty rate of children in female headed families declined from 72.2% to 54.4%. By 1978 the rate was at 50.6%, but then began to rise, reaching a level of 56.0% in 1982. In 1983, the poverty rate for children in female headed families was 55.4%.

Race

Although the majority of poor are white (68% in 1983), the poverty rate for blacks has been consistently higher than for whites over the years. In 1983, the poverty rate for blacks was three times that of whites (35.7% and 12.1%, respectively). Contributing to the high incidence of poverty among blacks is the large proportion of black children who live in single female headed families. In 1983, about one-half of all black children lived in female headed families, and among these children, three-quarters were poor. In comparison, about one in seven white children lived in female headed families, of which two-fifths were poor. While the situation of black children helps to account for the higher rate of poverty among blacks, it does not explain it; for most any comparison, the incidence of poverty among blacks is higher than that of whites.

ISSUES RELATING TO THE MEASUREMENT OF POVERTY

Debate relating to the measurement of poverty has focused on two major aspects: the poverty threshold, itself, and the types of income counted against that yardstick.

Arguments for and Against Changing the Income Standard

Many argue that the poverty threshold is too low, few argue that it is too high. Analysts in both groups say that the current threshold is limited in several ways. Some object to the choice of an absolute measure based on a fixed market basket. They would prefer a relative yardstick, focused on the distribution of income in society. They argue that poverty is more than not having enough to get by, but a matter of having a lot less than others, and that this view of poverty is more in line with public perceptions than the present standard. A second criticism is that the present standard, while adjusted for price changes, is based upon consumption patterns of the late 1950s and early 1960s and does not reflect changes in the general standard of living, such as a decreased proportion of income spent on food. Given the existing measure, poverty might be reduced or even eliminated as the result of an increase in the overall standard of living, without affecting the basic distribution of income. Some argue that the measure should be tied to changes in the standard of living, for example, by reevaluating the poverty market basket to reflect present consumption patterns, or by relating it to

some other measure, such as a percentage of real median income. A third criticism is that the existing poverty thresholds do not take into account area cost of living differences. These analysts argue that the existing measure tends to overestimate poverty in some areas and underestimate it in others.

Those who support the existing definition counter the critics by arguing that in spite of its weaknesses, it offers a relatively consistent basis for measuring change over time, and thus, should not be changed dramatically. They also argue that poverty does have absolute aspects, such as hunger and illness, which should be expected to decline as real income increases.

Arguments for and Against Changing the Definition of Income Applied Against the Standard

Many argue that Government in-kind (non-cash) benefits make a marked improvement in the poor's standard of living and should thus be counted as income against the poverty standard; counting such benefits would lead to a reduction in the number of persons counted as poor. They note that in-kind benefits have become an increasing portion of total Federal welfare expenditures over the years, and that failure to count them underrepresents the Government's efforts to help the poor. While there is general agreement that noncash benefits are an important source of income to the poor, there is little agreement as to how or whether such benefits should be valued for purposes of counting the poor.

Some analysts argue against counting in-kind benefits as income against the poverty standard, since a wide range of results are attainable, depending on the the methods used. A recent Bureau of the Census report shows, depending on the method and combination of in-kind benefits valued, the proportion of persons counted as poor (in 1983) could be reduced by 8% to 33% overall, and by 13% to 77% for the aged. Given such results, some analysts argue that it would be difficult to arrive at an agreed upon methodology. They also argue that, regardless of the method used, the general trend has been unaffected, and, for comparative purposes, it is the trend that is most important. Although fewer persons are counted as poor when noncash benefits are counted as income, the poverty rate would have increased at a greater rate from 1979 to 1983 had noncash benefits been valued. Depending on the valuation method used, the poverty rate would have increased between 38% and 50% from 1979 to 1982 had noncash benefits been included as income; this compares to a 30% increase in the official rate.

Some analysts argue that if in-kind benefits are counted, then the poverty standard should be revised, since the standard was originally based on cash income. Others argue that after-tax income should be used for purposes of counting the poor, rather than the pre-tax measure used presently. They argue that the poverty threshold is based upon after-tax income and, therefore, so too should be the type of income counted against the standard. They also note that after-tax income is more closely linked to the concept of disposable income -- or income that can actually be spent on consumption. Further, they note that the tax system plays an important role in redistributing income and, therefore, its effects should be included in the measurement of poverty. For example, they argue that the tax burden on the poor has increased over the years, since Federal income tax brackets have not been regularly adjusted for inflation. Still, others argue that it might be more appropriate to have a poverty standard based on net-worth, which would take into account the value of assets, such as a home, or savings, which

could be converted to cash.

Methods for making adjustments to value in-kind benefits are complex and controversial. Several ways of valuing such benefits have been posed. The simplest method is to estimate the market value (the cost to the Government). However, most analysts agree that the value of a noncash benefit to the individual is less than its market value, since if given cash, instead, the individual might choose to spend it on a different market basket of goods and services than what the in-kind benefit provides. These analysts suggest that value of the in-kind benefit be estimated in terms of the amount of cash the individual would accept in lieu of the benefit -- cash equivalent value. A third way of valuing in-kind benefits is to limit the value of the benefit to the percentage share of the poverty budget which families near the poverty line spend on such items -- the poverty budget share. One criticism of this approach is that any benefit in excess of the poverty budget share would not be counted, even though it would improve the recipients' standard of living.

Problems of valuing in-kind benefits vary with the type of benefit. For example, assigning a value to food stamps is relatively straight forward; they are almost as good as cash, except they may be redeemed for only certain food items. In other cases assigning a proper value to in-kind benefits is more difficult. This is particularly true in the case of medical assistance, such as Medicare and Medicaid. Some analysts argue that the insurance value of Government provided medical benefits should be used. However, for those who are at high risk of being ill -- such as the aged -- the insurance value of such benefits may overstate the antipoverty effectiveness of such programs. In such cases, many of the aged might be counted as having incomes above the poverty level, but still have insufficient income to purchase other necessities, such as food and shelter.

SUMMARY

Demographic and economic trends, as well as trends in Federal and State expenditures, all have an impact on poverty. Most analysts agree that the trends in poverty follow economic trends quite closely. Improvements in the real standard of living were largely responsible for the reduction in poverty from 1959 to 1969. There is some evidence that the combination of demographic pressures and poor economic performance, caused pretransfer poverty (i.e., poverty based on market income alone) to increase over the decade of the 1970s. However, growth in social insurance expenditures largely offset the increase in pretransfer poverty over this period, helping to keep the official poverty rate relatively stable. Social insurance expenditures have been particularly important in keeping down the poverty rate among the aged. Cash welfare expenditures, while an important source of income to the poor, only marginally affect the poverty rate. Since 1975 cash welfare expenditures have remained relatively constant. The pre-transfer poverty rate increased considerably, after 1978, reflecting a worsening economic trend. However, social insurance and cash welfare programs failed to hold the official rate at its pre-1979 level. In-kind welfare benefits have grown considerably since 1965, but are not included as income for purposes of counting the poor. Analysts point out that if in-kind benefits were counted as income, the poverty rate would be lower. However, recent data show that the rate of increase in the poverty rate from 1979 to 1983 would have been greater than the change in the official rate if noncash benefits had been valued.

Most analysts agree that a healthy economy is necessary in order to reduce poverty. However, even with an improved economy certain groups -- children in female headed families, blacks, the very old -- have a good chance of being poor.

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