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On the Issues

Why Poverty Doesn't Rate

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Without a clearer understanding of the serious flaws in the government's official measure of poverty, most initiatives aimed at reducing poverty in the United States will be needlessly ineffective. New measures that take into account contemporary lifestyles and the dynamic U.S. economy will be more useful in helping the poor.

The Census Bureau last week released its latest estimate of the U.S. poverty rate—the country's most important official statistic on domestic want and deprivation. The figure was sobering, signaling short-run stagnation and deterioration over the past generation. The 2005 poverty rate of 12.6 percent barely budged from the previous year's number and was substantially higher than the 11.1 percent level registered back in 1973, the lowest on record. No less disturbing, the official measure indicates that a greater portion of families and children live in poverty in America today than three decades ago.

The results seem to suggest a prolonged failure of national policies to address poverty in the United States. However, the problem here lies less with actual living conditions than with the flawed and misleading poverty measure itself. The index that Washington has long used to assess progress in the struggle against poverty is a broken compass, and its misdirection has worsened steadily over time. Hurricane Katrina's destruction of the Gulf Coast one year ago revealed in devastating fashion the poverty and hardships that many people in the United States still endure. Unfortunately, the official poverty rate is utterly incapable of tracking material deprivation in the United States with any accuracy.

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Petrified Poverty Measures

The nation's poverty indicator first emerged in 1965, when the Johnson administration launched the War on Poverty. This then-novel measure determined a family's poverty status by comparing its annual income to a federal "poverty threshold"—set at about three times the cost of a nutritionally adequate food budget and tailored to a family's size. The percentage of people falling below that threshold was deemed the "poverty rate." The threshold is adjusted each year to take into account changing prices.

But much more than prices has changed since 1965—and the government's poverty measures have failed to adapt to and recognize the new conditions. With more access to credit, greater income swings from year to year, and improved nutrition, housing, and health care, the life of America's poor is radically different today. Unless the nation's basic poverty indicators take into account such new conditions, any efforts to effectively redress poverty in America are bound to fail.

To understand the problems with the official poverty rate, compare the America of 1973 to the America of 2001. In 2001, the country's per-capita income was far higher than in 1973—according to the Census Bureau, roughly 60 percent higher—and unemployment rates were lower. In 2001, only one in six adults lacked a high-school diploma; in 1973, two-fifths had not finished high school. And government anti-poverty spending was more than twice as high in 2001 as in 1973.

So, in a richer, more fully employed and better educated nation with a bigger safety net, shouldn't the poverty rate be lower? Wrong. The way the official rate is calculated, the fraction of Americans living below the poverty line was higher in 2001 (11.7 percent) than in 1973 (11.1 percent). For some reason, our official statisticians insist that America's best year for combating poverty—ever—was 1973. Go figure.

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Indeed, since 1973, the official poverty rate has usually moved in the opposite, counterintuitive direction from other common-sense indicators of progress and poverty. When the rate of high-school dropouts among America's adult population falls, the official poverty rate rises. When anti-poverty spending increases, so does poverty. And even when per-capita income in the United States goes up, official poverty somehow increases, too.

A "Poor" Standard of Living

Obviously, the official poverty rate is not reflecting shifting living conditions in the United States. A wealth of evidence shows that those who are counted as poor today have dramatically higher living standards than their counterparts in the 1960s, when the poverty rate was originally devised:

Food and nutrition. In the early 1960s, the poorest fifth of American families were forced to devote nearly 30 percent of their expenditures to buying food; by 2004, the proportion was down to one-sixth of spending. Undernourishment and hunger were common among the most vulnerable elements of society forty years ago; today, by contrast, obesity is the main nutritional problem facing adult Americans, rich and poor alike. And even children considered poor by official standards are better nourished today than in the 1960s. As recently as 1973, about 8 percent of low-income children surveyed by the Centers for Disease Control (CDC) were judged underweight; by 2004 the figure had dropped below 5 percent. The prevalence of anemia among poorer American children likewise fell by more than half during those same years.

Housing. In 2001, only about 6 percent of the country's poor households lived in "crowded" dwellings (homes with more than one inhabitant per room), compared with more than 25 percent in 1970, according to the Census Bureau. Today's poor households are more likely to have telephone service and television sets than even non-poor households in 1970; they are much more likely to have central air conditioning than the typical American home of 1980 and almost as likely to have a dishwasher. Moreover, according to a Department of Energy survey in 2001, most poverty households have microwaves, VCRs or DVDs, and cable television—conveniences unavailable in even the most affluent homes at the time the poverty rate measure was first released.

Autos and motor travel. In 1973, a majority of the households in the bottom fifth of income earners did not own a car. By 2003, nearly three-fourths of all poverty households had a car, truck, or van, and a rising fraction owned two or more such vehicles.

Health care. For the affluent and the disadvantaged alike, life expectancy in America has risen significantly since the nation's poverty measures were first developed. The CDC's National Center for Health Statistics has found a broad improvement in national health conditions over the past four decades. Since 1965, for example, the U.S. infant mortality rate (the risk of death in the year after birth) has dropped by more than 70 percent. And regardless of the availability of health insurance, access to medical treatment has risen markedly for poorer Americans: children in poor families are more likely today to have an annual medical visit or checkup with a doctor than even non-poor children did just twenty years ago.

Counting Credit

Why does the official poverty rate fail to quantify the steady improvement in the living standards of America's poor? The answer lies in a simple mistake built into the poverty measure—one that reflects a misunderstanding of how Americans live, spend, and consume. Contradicting both economic theory and readily observable facts, the poverty rate assumes that a household's annual spending cannot, by definition, exceed its annual income.

Of course, this is not true, and economists have won Nobel Prizes explaining why spending can far exceed income, particularly in advanced societies. For instance, when families are experiencing an unusually bad year, they may spend more than they earn if they see better prospects in the future. Similarly, a young worker may go into debt if she anticipates increases in her pay or benefits. Living standards, in other words, are linked to purchasing power—and a family's purchasing power is not limited to its annual earnings.

Among low-income households in the United States, the gap between reported income and reported spending has widened gradually since the 1960s and now has taken on chasm-like dimensions. In the early 1960s, the poorest quarter of U.S. households spent 12 percent more than their annual incomes. In 1973, spending by America's poorest fifth surpassed their income by almost 40 percent. And in 2004, spending by the poorest fifth of American families exceeded income by a whopping 95 percent; in effect, spending was nearly twice as much as income.

These patterns might be due to easy access to credit, with many consumers maxing out their credit cards or engaging in other unsustainable borrowing. (Curiously, however, recent credit surveys suggest that the net worth of poorer Americans has been rising, not falling.)

Another important factor could be the increasing instability of American incomes. Scholars such as Jacob Hacker at Yale University and Robert Moffitt at Johns Hopkins University have noted that the income of American families is likely to bounce around much more today than it did three decades ago—whether due to greater global competition, increasing rewards for education, or other factors. Intensified swings, in turn, mean that more households may, in any given year, earn low incomes and be temporarily classified as living in poverty. But they continue to spend as they did before, anticipating that their incomes will bounce back. Such oscillations also mean that the incomes reported by families in annual surveys—the backbone for the official poverty estimate—are a steadily less accurate indicator of true living standards.

These criticisms of the official U.S. poverty rate should not be confused with indifference to the plight of America's disadvantaged and poor. Indeed, the opposite is true. In the richest society humanity has ever known, material deprivation still afflicts too many Americans. We cannot expect to make progress, however, without adequate and accurate information. Advocates of social and economic justice in the United States should be in the front ranks of those demanding more accurate assessments of U.S. poverty. Without a clearer sense of where we stand, how we got here, and where we are headed, most initiatives aimed at reducing poverty in the United States will be needlessly ineffective.