The Takeaway
Policy Briefs from the Mosbacher Institute for Trade, Economics, and Public Policy

The War on Poverty Needs a New Map

MOSBACHER INSTITUTE
TRADE ★ ECONOMICS ★ PUBLIC POLICY

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WHAT'S THE TAKEAWAY?

Federal poverty statistics are a geographically biased and financially incomplete measure of poverty.

The U.S. government relies heavily on those biased statistics to determine eligibility for anti-poverty programs.

Replacing the Federal Poverty Level with cost-adjusted poverty thresholds would allow federal benefits to be targeted more effectively.

In the 50 years since the start of Lyndon B. Johnson's War on Poverty, the federal government has spent vast sums of money trying to lower U.S. poverty rates. In 2013 alone, federal spending on anti-poverty programs—including Medicaid, Children's Health Insurance (CHIP), Temporary Assistance for Needy Families (TANF) and food stamps (SNAP)—exceeded $670 billion, or 20 percent of the federal budget.[1] Yet, despite the repeated allocation of massive financial resources, overall poverty rates have barely budged. The national poverty rate in 2013 (14.5%) was only 2.8 percentage points lower than it was in 1965 (17.3%).[2]

There are many possible explanations for the lack of success in reducing poverty rates, but two are particularly pervasive. First, official measures of poverty are geographically biased and financially incomplete. Second, federal policy relies heavily on those biased and incomplete measures to allocate aid.

MEASURING POVERTY

The official U.S. poverty rate is calculated using Census Bureau poverty thresholds. Those thresholds are based on a

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Figure 1: Selected 2013 Poverty Thresholds

Size of Family	2013 Poverty Thresholds
One Person:	
Under 65 years	$12,119
65 years and over	$11,173
Two Person Family (no children)	
Householder under 65 years	$15,600
Householder 65 years or older	$14,081
Three Person Family	
With no children under 18 years	$18,222
With one child under 18	$18,751
With two children under 18	$18,769
Four Person Family	
With no children under 18 years	$24,028
With one child under 18	$24,421
With two children under 18	$23,624
With three children under 18	$23,707
Five Person Family	
With no children under 18 years	$28,977
With one child under 18 years	$29,398
With two children under 18	$28,498
With three children under 18	$27,801
With four children under 18	$27,376

Source: U.S. Census Bureau

household's "money income." Families with incomes below designated thresholds are said to be living in poverty; those with incomes above the thresholds are not. As Figure 1 illustrates, the poverty thresholds increase as family size increases.

Statistics based on the poverty thresholds in Figure 1 are geographically biased because they do not account for cost-of-living differences. For example, a family of four with two children and a household income of $23,624 was classified as poor in 2013 regardless of whether that family lived in rural Arkansas, where a typical two-bedroom apartment rents for less than $600, or in New York City, where a two-bedroom apartment rents for more than $1,400.[3] After paying the rent, a family of four earning a poverty-level income had more than twice as much money left to pay for food, clothing, and other items in rural Arkansas than one in New York City. That additional purchasing power clearly supported a much higher standard of living in Arkansas than in New York City. If the poverty thresholds were adjusted to reflect purchasing power—and therefore real standards of living—poverty rates would have been much higher than the official statistics in high cost-of-living parts of the country, and much lower than the official statistics in low cost-of-living areas.

Poverty statistics based on the thresholds in Figure 1 are also financially incomplete because they fail to account for the value of non-cash benefits. By definition, the money income of a household includes cash benefits from programs like TANF; these cash welfare benefits can lift families out of poverty as currently measured. However, the poverty-fighting impact of non-cash benefits such as food stamps or housing vouchers remains uncounted. As a result, the official poverty statistics fail to provide an accurate picture of the economic circumstances of U.S. families.

THE SIZE OF THE MEASUREMENT ERROR

Researchers generally agree that measurement error in the poverty statistics is a problem, but disagree about the details of the solution. Many have developed alternative poverty indices. One such measure is the Supplemental Poverty Measure (SPM). Based on recommendations issued by the National Academy of Science in 1995, the SPM was developed and adopted by the Obama administration in 2010 as a complementary statistic to improve the understanding of economic circumstances of individuals.[4]

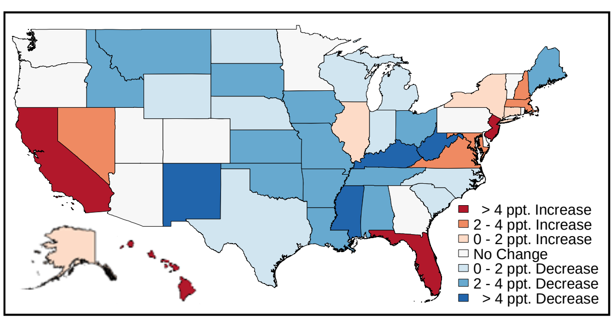
The SPM redefines poverty as the lack of economic resources for consumption of basic needs such as food, housing, clothing, and utilities. To determine family resources, gross money income is supplemented with benefits such as food stamps, housing subsidies, and tax credits, while adjustments are made for out-of-pocket expenses like health insurance premiums, payroll taxes and child care costs. Crucially, the SPM also adjusts the poverty thresholds for regional differences in housing costs.

> *The SPM is lower than the official poverty rate in 27 states*

Figure 2 illustrates the difference between the SPM and the official poverty statistics. For states shown in red (California, Hawaii, Florida, and New Jersey), compared with the SPM the official measure understates the poverty rate by more than 4 percentage points. It overstates the poverty rate by more than 4 percentage points in the states shown in dark blue (Kentucky, Mississippi, New Mexico, and West Virginia). The SPM is higher than the official poverty rate in 13 states and the District of Columbia (shades of red); equal to the official rate in 10 states (white); and lower than the official rate in 27 states (shades of blue).

Furthermore, the SPM indicates that there can be substantial differences in the geographically adjusted poverty thresholds from one city to another within a state. As a general rule, SPM poverty thresholds are higher in metropolitan areas than in rural areas. In 17 states, the adjusted poverty threshold in the metropolitan area with the highest housing cost is more than 20% higher than the adjusted poverty threshold in the lowest-cost rural area.

Figure 2: Percentage Point Difference Between SPM and the Official Poverty Rate



Source: U.S. Census Bureau P60-251.

THE CONSEQUENCES OF MISMEASURING POVERTY

Despite the measurement problems associated with the federal poverty threshold, the U.S. government relies heavily on these thresholds (which are frequently referred to as the federal poverty level, or FPL) to determine eligibility for federal anti-poverty programs. Some examples follow.

- *Medicaid and CHIP*. Although states have the option to use a higher threshold—and many of them do—federal law requires states to set the Medicaid and CHIP eligibility threshold no lower than 133% of the FPL for pregnant women and children. The federal eligibility threshold is also 133% of the FPL for parents and other adults in states that expanded Medicaid under the Affordable Care Act.

- *National School Lunch Program* (NSLP). The NSLP provides free lunches to students from families with incomes at or below 130% of FPL, and reduced price lunches to students from families with incomes between 130% and 185% of FPL.

- *Supplementary Nutritional Assistance Program (SNAP).* Formerly known as the Food Stamp Program, SNAP paid over $79 billion in federal benefits in 2013 alone. Families must have a gross monthly income at or below 130% of the FPL to be eligible for SNAP.

- *Title I of the Elementary and Secondary Education Act*. In 2013, Title I allocated more than $13.7 billion to U.S. school districts based on the percentage of students from families at or below 100% of the FPL. Research suggests that as a result of the geographic bias in the poverty statistics, Title I funding shortchanges school districts in high cost-of-living urban areas.[5]

- *The Low Income Home Energy Assistance Program (LIHEAP).* LIHEAP provides home heating and cooling assistance to families at or below 200% of the FPL.

Because the FPL is not adjusted for cost-of-living differentials, all of these programs are poorly targeted. Families in high cost-of-living areas are ineligible for assistance even though their need is greater than that of families who are receiving assistance in low cost-of-living areas.

TAKING AIM AT POVERTY

Under current law, the SPM cannot be used to determine federal allocation of funds or benefits for programs like SNAP or Medicaid. Arguably, that is the right call. Using the SPM to determine eligibility for benefits under such programs would create a problem of circular measurement, whereby states with generous benefit programs would have fewer people below the poverty threshold and therefore receive less aid from the federal government to fund the programs that lifted people out of poverty in the first place.

However, the problem of circular measurement should not dissuade policy-makers from utilizing the potential benefits of the SPM. Cost-of-living data must be included in an accurate poverty measure for benefit allocation. Replacing the FPL with cost-adjusted poverty thresholds like those used in the SPM would allow federal benefits to be targeted more efficiently, and enhance the effectiveness of federal anti-poverty programs.

Geographically adjusting the FPL could be politically difficult. The states where geographic adjustment would lower poverty rates—and therefore federal aid for anti-poverty programs—outnumber the states where geographic adjustment would increase poverty rates, two to one. However, despite the difficulties, it is the right thing to do. If the U.S. is going to win the War on Poverty, it needs a new map.

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ABOUT THE MOSBACHER INSTITUTE

The Mosbacher Institute was founded in 2009 to honor Robert A. Mosbacher, Secretary of Commerce from 1989-1992 and key architect of the North American Free Trade Agreement. Through our three core programs–Integration of Global Markets, Energy in a Global Economy, and Governance and Public Services–our objective is to advance the design of policies for tomorrow's challenges.

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