

Defining Poverty Up

By W. MICHAEL COX
And RICHARD ALM

America could soon get a lot poorer.

The Census Bureau is experimenting with a new formula that would raise the poverty threshold for a family of four to \$19,500 from \$16,660. Through a simple change of definition, one that has nothing to do with economic realities, 12 million Americans might become "poor" overnight.

It's true that existing measures of poverty are riddled with flaws. But the problem isn't that they underestimate poverty; it's that they overestimate it. When we're trying to determine well being, the proper yardstick is consumption, not income. They aren't the same thing—especially among the poor. The poverty rate tells us how many Americans earn low incomes, not what they're able to buy.

Households in the bottom fifth of the income distribution consume well beyond their earnings. In 1997 an average low-income household made \$7,086 year before taxes. Consumption—what the poor spent, not what they earned—totaled \$14,670.

How can poor families consume more than they earn? Many supplement their income through welfare, Food Stamps, unemployment benefits, Medicare, Medicaid, school lunches, rent subsidies and other programs, all of which the statistics leave uncounted. And the poverty statistics ignore wealth, which can be more important than current income. Workers temporarily laid off don't get paychecks, but they often have savings to fall back on. Although many retirees earn low incomes,

their houses, cars and furnishings are paid for, and they've got nest eggs. In 1993, 302,000 families with incomes of less than \$20,000 lived in homes worth more than \$300,000.

When you're really poor, everything you see is something you can't have. But over the years, the poor have gained access to more goods. Government statistics show that poor households own many of the consumer goods usually associated with middle class life in the United States.

The percentage of poor households with washing machines rose to 72% in 1996 from

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than ever before.*

58% in 1984. Ownership of dryers went to 50% from 36%. Two-thirds of poor families had microwave ovens in 1996, up from one in eight a decade ago. Ninety-seven percent of poor households have color televisions, and three-fourths have videocassette recorders. Almost three-quarters of poor families own at least one car.

By the standard of day-to-day living—the standard that really matters—the poor have gotten much richer. Indeed, poor households in the 1990s are in many ways better off than average families in the early 1970s. Two-thirds of poor households had air-conditioners in 1997, compared with less than a third of all households in 1971. And it wasn't a welfare program that made it possible; it was the free market, which has introduced innovative new products and brought the prices down.

Spending patterns help explain how the poor can afford more of the trappings of middle-class life yet still not escape the poverty statistics. Among households below the poverty line, outlays for food, clothing and shelter were 37% of consumption in 1995, compared with 52% two decades earlier, 57% in 1950 and 75% in 1920. Thus poor households have considerably more discretionary income than they once did.

One reason is that the government has

already been raising the poverty threshold too quickly. For more than three decades the government has been adjusting the poverty line every year for inflation. The Boskin Commission concluded in 1996 that the consumer price index overstates the actual rise in the cost of living by a percentage point a year. What's more, the overall CPI has risen 40% faster than the cost of groceries since 1965.

The crux of the debate over the proposed new statistics is the purpose of measuring poverty. As originally conceived, the poverty statistics were meant to be diagnostic. They emerged in the mid-1960s as a benchmark for President Johnson's "war on poverty." What we wanted to know then—what we should still want to know today—is whether we're reducing the number of families struggling to obtain the basic necessities of life.

The answer is yes. A recent Heritage Foundation study examines the incidence of the bedrock problems of poverty—malnutrition, crowded housing and lack of access to medical care. It concludes that 8.7 million Americans, or just 3.7% of the population, make up the nation's "hardship population"—the truly poor.

In 1993, University of Texas economist Daniel Slesnick recalculated the poverty rate based on spending rather than income. To remove the vagaries of inflation, he established the poverty threshold at three times the cost of a nutritionally adequate diet for all members of a household. Mr. Slesnick's results show that the proportion of poor in the U.S., measured by consumption, has fallen steadily, from 31% in 1949 to 13% in 1965 to 2% at the end of the 1980s.

It's not hard to discern the political agenda of those who want to conjure up another 12 million poor people. Having more poor families enlarges the constituency for programs that dole out money to the poor. But if it's simply a matter of deciding which families are eligible for government programs, then the issue really comes down to how much we're willing to sacrifice to the insatiable god of equality.

Mr. Cox, senior vice president and chief economist at the Federal Reserve Bank of Dallas, and Mr. Alm, a business reporter for the Dallas Morning News, are co-authors of "Myths of Rich and Poor: Why We're Better Off Than We Think" (Basic Books, 1999).

Notable & Quotable

From the Stein Report, a Web posting by Dan Stein of the Federation for American Immigration Reform (a group in favor of limiting immigration), Oct. 28:

The New York Times featured a piece today highlighting the fact that Craig Nelson, the activist who is spearheading a national billboard campaign opposing mass immigration, had at one time hired illegal aliens. Nelson admitted to hiring the illegal aliens, arguing that lax interior enforcement and the ease at which his competitors could hire them had forced him to hire them as well to stay competitive.

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