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Thank you, Chairman McDermott and members of the subcommittee for this opportunity to testify. I'd like to begin by thanking you for holding this hearing and addressing the important issue of how we measure poverty.

My name is Nancy Cauthen, and I am the Deputy Director of the National Center for Children in Poverty (NCCP). NCCP is a policy research organization at Columbia University's Mailman School of Public Health. Our mission is to promote the health, economic security, and well-being of America's most vulnerable children and families. NCCP uses research to identify problems and find solutions at the state and national levels.

My testimony will address the following points:

- Child and family poverty exact a high toll on our society, so it is critical that we measure it in a way that allows us to best identify who needs assistance and what kinds of assistance.
- Although the National Academy of Sciences 1995 recommendations and subsequent refinements for updating the official poverty measure offer the most promising approach, the thresholds would still be too low to identify all those who need help.
- To improve child and family well-being, we must address not only income poverty but also material hardship.
- Family budgeting approaches provide an alternative way to understand what it takes for families to meet their basic needs and to achieve a reasonable standard of living.

What's at Stake: Why Poverty Matters

There is now abundant evidence that not only does poverty create hardship and adversity for those who experience it, but poverty also exacts a high toll on our entire society. Testimony presented before the full Ways and Means Committee in January estimated that child poverty costs the United States \$500 billion per year, which is roughly equivalent to 4 percent of Gross Domestic Product. These costs are attributed to reductions in productivity and economic output, increases in crime, and increases in health expenditures (Holzer, Schanzenbach, Duncan, and Ludwig 2007). A report prepared by the General Accounting Office and presented at the same hearing also found that poverty has large negative economic and social impacts (Nilsen 2007).

These and many other studies point to the seriousness of child poverty as a longstanding, nationwide problem. Using our current poverty measure, in 2005, 13 million children—18 percent of children in the United States—were growing up in families with income below the federal poverty level, which in 2007 is \$17,170 for a family of three and

\$20,650 for a family of four (Fass and Cauthen 2006).¹ But as I will argue, these figures significantly underestimate the numbers of children living in families who struggle to make ends meet. Considerable research indicates that it takes, on average, an income of twice the federal poverty level to meet basic needs. Using this definition of low income, 39 percent of children are living in families that are struggling financially.

The Effects of Income Poverty on Children

An extensive body of research literature has definitively linked economic hardship to a range of adverse educational, health, and social outcomes for children that limit their future productivity (for reviews of this literature, see Gershoff, Aber, and Raver 2003; Cauthen 2002). Poverty can impede children's cognitive development and their ability to learn. It can contribute to behavioral, social, and emotional problems. And poverty can contribute to poor health among children.

Research also indicates that the strength of the effects of poverty on children's health and development depends in part on the timing, duration, and intensity of poverty in childhood. The risks posed by poverty appear to be greatest among children who experience poverty when they are young and among children who experience persistent and deep poverty. The negative effects of poverty on young children, troubling in their own right, are also cause for concern given that these effects are associated with difficulties later in life—teenage childbearing, dropping out of school, poor adolescent and adult health, and poor employment outcomes.

As discouraging as this research might be, there is compelling evidence that we can positively affect these trajectories by investing adequate resources in proven anti-poverty strategies. Research is clear that we must reach children in poor families when they are very young and simultaneously address the needs of their parents (Shonkoff and Phillips 2000).

A holistic approach to reducing child poverty requires increasing family incomes, improving parental employment outcomes, investing in high-quality early care and learning experiences, and strengthening families. I do not mean to downplay the enormity of the task (Haskins 2007)—it would require a huge financial commitment as well as tremendous political will. But the point is simply that it's possible—the evidence is clear that in the long term, sound investments in the healthy development of children can increase economic productivity and improve overall prosperity, while reducing inequality (Knitzer 2007).

Increasing Family Income Improves Child Outcomes

More than a decade of research shows that increasing the incomes of low-income families—net of other changes—can positively affect child development, especially for younger children (for a review, see Cauthen 2002). Experimental studies of welfare programs offer some of the strongest evidence to date about the importance of income. For example, welfare programs that increase family income through employment and earnings supplements have consistently shown improvements in school achievement among elementary school-age children; other studies have also shown links between increased income and improved school readiness in young children.

In contrast, welfare programs that increase levels of employment without increasing income have shown few consistent effects on children. Moreover, findings from welfare-to-work experiments show that when programs reduce income, children are sometimes adversely affected. Other studies have shown links between increased income and reductions in behavioral problems in low-income children and youth (Costello, Compton, Keeler, and Angold 2003). It is not just the amount of income that matters but also its predictability and stability over time; research has shown that unstable financial situations also can have serious consequences for children (Wagmiller, Lennon, Kuang, and Aber 2006).

Reducing the consequences of child poverty will require more than increasing family incomes. But too often, policy discussions about reducing child poverty focus only on the symptoms of poverty—low educational achievement, social and behavioral problems, and poor health. Yet poverty itself is the single biggest threat to healthy child development: improving child outcomes requires explicit attention to lifting families up economically.

Determining the Best Way to Measure Poverty

For quite some time, there has been a consensus among social scientists that the current poverty measure needs to be improved. The United States measures poverty by a standard developed more than 40 years ago, using data from the 1950s that indicated families spent about one-third of their income on food. The official poverty level was set by multiplying food costs by three. Since then, the figure has been updated annually for inflation but the methodology has otherwise remained unchanged. The federal poverty level is adjusted by family size but is the same across the continental U.S.

The Current Measure

The usefulness of the current measure has declined over time for two reasons (Cauthen and Fass 2007):

- 1) **The poverty thresholds—that is, the specific dollar amounts—are too low because they are based on outdated assumptions about family expenditures.**

Food now comprises about one seventh of an average family's expenditures—not one third as was assumed under the original poverty measure. At the same time, the costs of housing, child care, health care, and transportation have grown disproportionately. Thus, the poverty level no longer reflects the true cost of supporting a family at a minimally adequate level. In addition, the current poverty measure is a national standard that does not adjust for the substantial variation in the cost of living from state to state and among urban, suburban, and rural areas.

- 2) **The method used to determine whether a family is poor does not accurately count family resources, overestimating resources for some and underestimating them for others.**

When determining whether a family is poor, income sources counted include earnings, interest, dividends, Social Security, and cash assistance. But income is counted before subtracting payroll, income, and other taxes, overestimating how much families have to spend on basic needs. And the method understates the resources of families who receive some types of government assistance because the federal Earned Income Tax Credit is not counted nor are in-kind government benefits—such as food stamps and housing assistance—taken into account.

Thus, by not reflecting an accurate picture of family expenses and resources, one unfortunate consequence of the way we currently measure poverty is that the measure cannot be used to evaluate the effectiveness of the very programs designed to help alleviate poverty.

The 1995 National Academy of Sciences Recommendations

Social scientists have been debating the usefulness of the current poverty measure for quite some time. The most extensive effort to date to address the concerns about the measure began with the work of a distinguished panel of experts appointed by the National Academy of Sciences (NAS) at the behest of Congress. In the decade since the panel's report was released in 1995 (National Research Council 1995), social scientists at the U.S. Bureau of the Census and the Bureau of Labor Statistics, as well as at universities and research centers, have continued to build on the panel's work.

To address the primary concerns about the current poverty measure, the NAS panel recommended that:

- 1) **The poverty threshold comprise a budget for food, clothing, and shelter.**

The amounts budgeted would be based on expenditure data, and the figures would be updated annually. The shelter amount would include utilities, and the threshold would allow a small additional amount for other common needs (such as household supplies, personal care, and non-work-related transportation). The panel discussed whether the measure should be adjusted for regional differences in living costs. This point has generated considerable debate and contention—the concerns are both technical and political.

- 2) **The measure of resources include cash and near-cash disposable income that is available for basic needs that are common to all families.**

The resource measure would *exclude* certain expenses that are non-discretionary for the families that incur them (e.g., work-related expenses such as child care and out-of-pocket medical care expenses). But it would include in-kind benefits (e.g. food stamps, subsidized housing, school lunches, and home energy assistance). The measure is

calculated after taxes, so payroll taxes would be excluded, but the Earned Income Tax Credit and other tax credits would be included in determining family resources.

Researchers do not agree on all the specific technical aspects of the NAS and subsequent recommendations. But there is almost universal agreement among social scientists that the NAS recommendations would provide the nation with a far more useful poverty measure than the current one. And pragmatically, the NAS approach is viewed as the most viable option for creating a bipartisan political consensus around a new measure.

The NAS recommendations would undoubtedly be an important improvement over what we have. And they also provide a way to measure the impact of poverty reduction programs, most of which did not exist when the original measure was created.

What Are We Measuring?

But even if we reach a consensus on a revised poverty measure along the lines of the NAS recommendations—and I hope we do—we need to be clear about what we are measuring. Both the current measure and the NAS versions attempt to quantify a minimal level of subsistence below which we have agreed, as a society, that no individual or family should fall.

Any judgment about what constitutes a minimally acceptable level of subsistence is, of course, normative. Human beings can survive on a variety of income levels. In 2005, 8 percent of children in the U.S.—nearly 6 million children—were surviving despite living in households with incomes of less than half the poverty line, which was just under \$10,000 annually for a family of three. Yet, in the wake of Hurricane Katrina, many Americans seemed shocked to learn that we still have a sizable number of desperately poor people in our country.

In short, questions about how we define poverty require value judgments not only about how to define a minimal level of subsistence but whether that is in fact a decent and just way to define poverty in a wealthy society.

Implementing the NAS recommendations produces poverty thresholds that are not vastly different from the current ones, which means they do not reflect the substantial improvement in living standards that have occurred in the U.S. over the last 40-plus years. When the current poverty measure was developed, the threshold for a family of four equaled about 50 percent of the median income for a four-person family. But over time, that percentage has dropped dramatically. Today the poverty threshold for a four-person family represents only about 30 percent of the median income (Ziliak 2005).

The question becomes: for what purpose are we measuring poverty and what do we want to do with the information? One of the most compelling reasons to establish an agreed upon measure of poverty is to identify who in the population is in need of assistance—and what kind of assistance—and the scope of that need. To the degree that we want a poverty measure that can inform policy, especially with regard to improving the well-being of children and families, we may need different kinds of measures.

The Difference Between Poverty and Material Hardship

The current poverty line does not accurately predict the likelihood that a family will experience material hardship (Iceland and Bauman 2007). Examples of material hardships include being evicted, missing rent payments, having utilities shut off, going without needed medical or dental care, or having unstable child care. Research consistently shows that families with income of up to twice the official poverty level experience many of the same hardships as families who are officially poor—while families with income above twice the poverty line are substantially *less likely* to experience material hardships. Overall, about two thirds of families with income between 100 and 200 percent of the federal poverty level experience one or more material hardships such as not having enough food or having utilities turned off because of inability to pay bills (Boushey, Brocht, Gundersen, and Bernstein 2001; Amey 2000). Some hardships, such as difficulties paying for child care and health care, are common among middle-income families as well.

A critical finding emerging from the child development literature is that material hardships play an important role in determining whether or not children will be negatively affected by growing up in a low-income family. Not surprisingly, facing such hardships is associated with diminished parental investments in children and increased parental stress, which in turn negatively affect children (Gershoff, Aber, Raven, and Lennon 2007). It is now clear that to reduce the effects of poverty on children, we need to increase family incomes *and* reduce the experience of material hardship (Gershoff 2003).

Any new poverty thresholds based on the NAS recommendations would not be substantially higher than current thresholds. Alternative poverty levels calculated by the Census Bureau that incorporate many of the NAS suggestions indicate that the threshold for a two-parent family with two children would increase by about \$3,000 (Bernstein 2007). Since research indicates that families with incomes of up to twice the current poverty thresholds face high levels of material hardship, it seems likely that even with an NAS-based alternative, there will continue to be many families who are deemed non-poor by the new measure while not being able to meet their basic needs.

Measuring What It Takes to Make Ends Meet

There has been a considerable amount of research over the last decade about what it takes to make ends meet. One such effort was spearheaded by Diana Pearce, for Wider Opportunities for Women, who developed a methodology for creating “Self-Sufficiency Standards” (Pearce 2001, 2006). The standards quantify how much money a family needs to cover basic expenses, such as housing, food, child care, transportation, health insurance, and payroll and income taxes; a small amount is also allocated for other necessities (examples include clothing, diapers, household items, and school supplies). The standards vary by locality—to account for variations in the cost of living—and by family type (two-parent or single-parent and the number and ages of children). The budgets assume that the families receive no public benefits. Self-Sufficiency Standards have been developed for 36 states.

The Economic Policy Institute (EPI) undertook a similar effort and created “Basic Family Budgets” (Berstein, Brocht, and Spade-Aguilar 2000; Allegretto 2005). The methodology differs somewhat from that for the Self-Sufficiency Standards, but the concept is the same—what does it take for different types of families in different localities to cover the costs of basic living expenses?² EPI has calculated basic budgets for over 400 localities across the country. The organization characterizes Basic Family Budgets as providing “a realistic measure of the income required to have a safe and decent though basic standard of living.”

Building on this earlier work, NCCP has created “Basic Needs Budgets” for different family types in over 80 localities in 14 states plus the District of Columbia.³ We developed these budgets in conjunction with a project, *Making “Work Supports” Work*, that analyzes the effects of federal and state work support programs—earned income tax credits, child care and housing assistance, and food stamps—on the ability of low-wage workers to make ends meet.

Despite some differences in methodology, all three of these efforts provide additional evidence for the finding that families on average need an income of twice the current poverty level to cover the costs of basic expenses. NCCP has found that, depending on locality, this figure ranges from about 150 to over 300 percent of poverty. For example, Table 1 shows that it takes an annual income of about \$30,000 for a single-parent family with two children to make ends meet in Atlanta, Georgia, but a similar family living in Rockville, Maryland would need over \$50,000.

NCCP’s Basic Needs Budgets, as well as the Self-Sufficiency Standards and EPI’s Basic Family Budgets, include only the most basic daily living expenses and are based on modest assumptions about costs. For example, the budgets in Table 1 assume that family members have access to employer-sponsored health coverage when not covered by public insurance, even though the majority of low-wage workers do not have access to employer coverage. NCCP’s Basic Needs Budgets do not include the cost of out-of-pocket medical expenses for copayments and deductibles, which can be quite costly, particularly for families with extensive health care needs. The budgets do not include money to purchase life or disability insurance or to create a rainy-day fund that would help a family withstand a job loss or other financial crisis. Nor do they allow for investments in a family’s future financial success, such as savings to buy a home or for a child’s education. In short, these budgets indicate what it takes for a family to cover their most basic living expenses—enough to get by but not enough to get ahead.

Table 1. Basic needs budgets for a single-parent with two children in selected localities*

	Atlanta GA	Peoria IL	Erie PA	Humboldt CA	Albany NY	Rockville MD	San Francisco CA
Rent and Utilities	\$9,348	\$7,248	\$7,128	\$8,700	\$9,024	\$15,432	\$18,612
Food	\$5,402	\$5,402	\$5,402	\$5,402	\$5,402	\$5,402	\$5,402
Child Care	\$7,020	\$8,352	\$12,688	\$12,153	\$16,116	\$11,868	\$16,804
Health Insurance	\$2,250	\$2,212	\$1,656	\$2,430	\$1,812	\$2,583	\$2,430
Transportation	\$630	\$3,440	\$2,553	\$4,493	\$432	\$2,472	\$540
Other Necessities	\$4,517	\$3,357	\$3,004	\$3,807	\$3,512	\$5,405	\$6,484
Payroll and Income Taxes	\$1,253	\$1,137	\$3,085	\$2,459	\$4,269	\$8,084	\$7,433
TOTAL	\$30,421	\$31,149	\$35,516	\$39,443	\$40,569	\$51,246	\$57,704
% of 2007 Federal Poverty Level	177%	181%	207%	230%	236%	298%	336%

* Assumes one-parent family with one preschool-aged child and one school-aged child.

Source: NCCP's Basic Budget Calculator (soon to be available online at www.nccp.org). Results are based on the following assumptions: children are in center-based care settings while their parent works (the older child is in after-school care); family members have access to employer-based health insurance when not enrolled in public coverage; in Albany, Atlanta, and San Francisco, family relies on public transportation, in all other locations, costs reflect private transportation.

Implications

These various measures—poverty measures, measures of material hardship, basic budgets—are not alternative ways of looking at the same thing, but rather they provide mechanisms for capturing and quantifying different phenomenon, which may require different (if overlapping) policy responses. Given this, what are the implications of adopting a new poverty measure along the lines of the NAS recommendations?

First, we would need to acknowledge that the official poverty level in the United States would remain a measure of deprivation and hardship rather than a measure of a decent, if modest, standard of living. Such a measure would still—if more accurately—identify only the most needy. Many families above this level still need assistance.

Second, we would need to think through the implications for programs that currently use the poverty level (or a percent of the poverty level) to determine eligibility. One possibility is to structure our assistance programs in ways that reflect the fact that working families with incomes above the poverty level need assistance with basic needs. The provision of public health insurance is one such model to build on—for example, providing free health insurance to families below (or near) the poverty line, and subsidized health insurance to somewhat higher income families, with premiums and copayments that gradually rise with family income. Similarly, a child care program informed by this understanding might provide free or very low-cost care to families living below the poverty line and reduced-cost child care to those above poverty but below a basic budget level (with the government subsidy decreasing as income increases). Cash assistance programs, on the other hand, would remain targeted at officially poor families, who have very low (or no) earnings (most state eligibility limits for cash assistance are currently well below the poverty level).

Third, I would hope that adopting the NAS approach for measuring income poverty would be accompanied by government efforts to also measure hardship, asset poverty, and other measures that inform us about how families are doing. Too many of our current policies are “too little, too late.” We typically wait until children and families are in deep trouble before we assist them, rather than investing heavily in prevention—we should help all families succeed instead of trying to patch them up once they have fallen. But we will need better measures—and concepts broader than poverty—to do so.

Endnotes

1. These figures refer to the federal poverty guidelines, which are used for administrative purposes, such as determining financial eligibility for benefit programs. For statistical purposes, researchers use a different—but quite similar—version of the federal poverty measure, the federal poverty thresholds, issued by the U.S. Census Bureau. Both the guidelines and the thresholds are commonly referred to as the federal poverty level (FPL).
2. Basic Family Budgets vary based on the number of children in a family but not their ages.
3. For a detailed description of the methodology used to create NCCP's Basic Needs Budgets, see the *User Guide* for the Family Resource Simulator < <http://nccp.org/tools/frs>> and consult the section on “Calculating Family Expenses.”

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