WHAT'S WRONG WITH THE POVERTY INDEX?

Much has been said and more will be about the limitations of the poverty index, what might be called the poverty of the poverty line. It refers only to current income—to some this implies a weakness in that it ignores assets and other money receipts. It makes no adjustment for income in kind except for income from farming, and to be sure there are those who don't like that one either. To some it signifies a failure to allow for the temporary component of income because it ignores year-to-year change in income. And to others it is suspect because it ignores life's nonmonetary satisfactions and the multiple ills afflicting the poor in addition to income insufficiency.

All these criticisms have merit, but let us make our bow to the last first. If money alone will not solve the problems of poverty it is still true that without money nothing else will avail much either. Mathematically it falls in the category of necessary though not sufficient conditions. Pragmatically it is undoubtedly true that the persons who declaim loudest that "money isn't everything" are those who already have some.

Ignoring assets is a more serious defect, yet in the only income data available on a regular basis, namely those collected by the Census Bureau from the Current Population Survey Samples, assets do not appear. On the other hand save among the aged, we find few poor households with generally substantial assets. The data collected for the OEO in 1966 should help us know better where asset holdings are concentrated, but it will still be difficult to devise a satisfactory method of handling them. It is not easy to see how to take due account of assets in a poverty criterion without discouraging savings, when as may well happen the poverty threshold developed as a statistical tool becomes a program eligibility criterion. Moreover, some forms of assets are not regarded as negotiable assets by their holders. Life insurance, for example, represents to many aged persons not savings but provision for their funeral costs.

With respect to the temporary income thesis we know little about income flow for cohorts of families and how it affects conusmption. Farmers and other entrepreneurial families, perhaps more than others, are subject to the hazards of paper poverty because they may use income in one year to enhance their business position and improve income prospects for the future. And the voluntary poverty assumed by the graduate student while completing his education is a familiar phenomenon. But while we speculate on those who are poor only temporarily, we might give a moment to those who are only momentarily not poor: in many households the interruption of income because of unemployment or other reasons may prevent adequate planning of spending and inhibit needed consumption even though on a recap basis total income for the year comes above the poverty line. In other words, irregularity of income and uncertainty as to its amount may be as much of a hazard to economic and social well-being as low income.

As for nonmoney income, the bulk of all nonmoney transfers—if one includes not only free medical care and food stamps but also fringe benefits to workers, health insurance premiums, expense accounts, vacation allowances, stock options, free or reduced tuition, commodity discounts, and the like—may well, like many of the income tax benefits, go to the nonpoor rather than the poor. The full effect of incorporating these into the income distribution might be to skew it even more than now with a resultant upping of the poverty line.

At first blush the value of consumption suggests itself as superior to income for a measure of poverty status. The point is, of course, that income standards are presumed to be measures of consumption potential. Shifting to consumption rather than income as the reference unit does not eliminate the problems of measurement and definition, but merely exchanges new ones for old. Currently data on consumer expenditures supply estimates of total purchase commitments rather than cash outlays during the year. Our household expenditures survey schedules have not yet accepted the buy now-pay later dictum as a way of life. What is more, we shall still face the need for assessing the value of goods received without direct outlay—will they be given a retail value (assuming the family knows it) although often they do not replace any item the family must buy? Should they in the case of a farm or other business family be valued at the income foregone which is the price they could be sold for? Should the value of homeownership be set at a fair return for investment or more realistically at the saving, if any, over what a neighbor in similar circumstances pays for rent. And how shall we determine the appropriate replacement (or purchase) rates in the absence of existing inventories which can portray the real consumption potential?

There remains a whole host of problems of arbitrary selection—as for example the appropriate food pattern to price. This in itself largely determines the level