European Measures of Income, Poverty, and Social Exclusion:
Recent Developments and Lessons for U.S. Poverty Measurement

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As this volume is going to press, the U.S. government seems poised to make the first major changes in the official poverty measure in more than 40 years.[1] The official measure was initially formulated in 1963 by Mollie Orshansky of the Social Security Administration, who had been asked to develop a gauge of economic need that could provide data useful to the War on Poverty. Orshansky created the poverty measure by multiplying the USDA's Economy Food Plan for a family of four by three (as the 1955 Household Food Consumption Survey showed that food made up one-third of the after-tax spending of a family of three or more). The Bureau of the Budget adopted this threshold as the official measure of poverty in the United States in 1969.

Many observers believe that the official poverty measure should be updated. First, the threshold was originally a reflection of the place of food in a family's budget. Since the creation of the poverty measure, food as a percent of a family's budget has declined from one-third to one-eighth, thus leading critics to charge that the measure does not reflect additional expenses in a family's budget that did not exist in 1963. (Of course, the cost of food has also declined.) In any event, the income thresholds do not adequately account for inflation, geographic differences in the cost of living, nor the number of adults and children in a family.

Second, the current measure does not accurately count all the financial resources available to families. The current measure does not count government tax credits (such as the Earned Income Tax Credit), nor in-kind near-cash government transfers (such as food stamps, WIC, housing subsidies, and subsidized school meals). Despite the rapid growth in means-tested public spending, "our poverty statistics failed us," Blank laments, "and made it easy to claim that public spending on the poor had little effect" (Blank, 2008, p. 239). Moreover, the current measure does not subtract state and local taxes, or additional expenses (such as work expenses, including transportation and child care, and out-of-pocket medical care).

Although the official measure's weaknesses have been well-known for many years, reform has not been possible because changes in the reported number of people in poverty would be controversial, and, perhaps more important, many federal grant programs use poverty rates to allocate funding to states and localities, and many state and local programs use some multiple of the poverty thresholds to determine program eligibility.[2]

These political obstacles are well known. Less well known are the conceptual and technical challenges that are intertwined with the political issues posed by any new poverty measure: The data for implementing many of the proposed changes are often incomplete, and the required estimation techniques are tentative and controversial. For example, should the definition of family be modified to reflect new household arrangements, such as widespread nonmarital cohabitation, and should there be different assumptions about income sharing? Should equivalence scales be adjusted, and how? Should the value of non-cash benefits such as Medicare and Medicaid be counted and, if so, how should they be estimated? How about housing benefits? Should the threshold be raised to reflect higher levels of middle-class consumption and, if so, by how much? Should poverty thresholds be adjusted for geographical differences in the cost of living and, if so, how? Should the value of assets, particularly home ownership, be considered a source of imputed income and, if so, how should it be estimated? What role, if any, should there be for measures of consumption and well-being?

European researchers and governments face similar issues as they seek to improve their measurement of income, poverty, and well-being. To learn more about their efforts, in March 2009, the University of Maryland School of Public Policy and the Organisation for Economic Co-operation and Development convened more than 100 scholars and government officials from about 24 countries in Paris, France. At the conference, 18 papers were presented in five broad topic areas: monetary measures of poverty and inequality; broadened measures of income (or resources); income levels for social assistance; and measures of consumption, assets, wealth, well-being, and social exclusion.[3]

We hope that the papers from this international conference help spark a cross-Atlantic dialogue about how best to measure income, poverty, and well-being. Just as important, we hope that this process will serve as a model for cross-national exchanges in other areas of social welfare policy. This special section provides a summary of the key points made in the conference papers. The papers are intended to give a wider audience the benefit of an American perspective concerning the lessons to be drawn from the papers for reforming U.S. poverty and income measurement.[4]

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1 Besides adjustments for inflation, the last changes to the poverty measure were in 1981, when the “farm” poverty threshold was eliminated and the largest family size category was increased from “seven persons or more” to “nine persons or more.”

2 Technically, means-tested program eligibility would be based on the poverty guidelines. For an explanation of the differences between the official poverty measure and the poverty guidelines, see U.S. Department of Health and Human Services (2009).

3 Most of the papers will be published by the Oxford University Press in a volume with a similar title,

and some will also be published in the *Journal of Policy Analysis and Management* and other journals.
4 With one exception, the authors were formal discussants at the Paris meeting.

REFERENCES

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