Child Poverty: Definition and Measurement

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ABSTRACT

This article provides a discussion of what we mean when we refer to 'child poverty.' Many images come to mind when we discuss child poverty, but when we try to measure and quantify the extent of child poverty, we often use a very narrow concept. In this article a variety of poverty measures that are used in the United States are described and some of the differences between those measures are illustrated. In this article 3 measures are explored in detail: a relative measure of poverty that is used more often in an international context, the official US poverty measure, and a new supplemental poverty measure (SPM). The new measure differs from the other 2 because it takes into account noncash benefits that are provided to poor families. These include nutrition assistance such as food stamps, subsidized housing, and home energy assistance. The SPM also takes account of necessary expenses that families face, such as taxes and expenses related to work and health care. Comparing estimates for 2012, the SPM showed lower poverty rates for children than the other 2 measures. Because noncash benefits help those in extreme poverty, there were also lower percentages of children in extreme poverty with resources below half the SPM threshold. These results suggest that 2 important measures of poverty, the relative measure used in international comparisons, and the official poverty measure, are not able to gauge the effect of government programs on the alleviation of poverty, and the SPM illustrates that noncash benefits do help families meet their basic needs.

KEYWORDS: poverty; poverty measurement; supplemental poverty measure

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MOST COUNTRIES AND many international statistical agencies calculate and publish measures of poverty. Policy makers use measures of poverty to understand who is poor, across groups and over time, to target scarce economic resources in the way of transfers and benefits as efficiently as possible. Thus, our poverty definitions and measures have important implications for targeting policies to improve economic well-being. Also, different measures reflect values in a society and might result in different kinds of policies to alleviate identified needs.

Poverty represents a lack of necessary goods and services. All poverty measures consist of 2 parts: a measure of need, or poverty threshold, and a measure of the resources available to meet those needs. Families and individuals are poor if resources are not sufficient to meet needs. However, it is a complex task to specify what goods and services are necessary and to value available resources.

There is a wide variety of poverty measures. In general, they fall into 2 broad groups on the basis of the measure of resources. The first group is referred to as income-based poverty measures. These measures specify a dollar amount (or other currency) that is considered to be the minimum amount required to buy necessary goods and services. For these types of measures, the amount needed might be determined by what people spend for necessary items or it might represent a standard budget that lists the cost of necessary items as specified by experts.

Another group of poverty measures uses nonmonetary resources and indicates material lack or want of necessary goods. These measures can represent the lack of specific items, such as shelter, clothing, furniture, transportation, or access to necessary services. They might also go beyond material lack to include human capabilities, such as skills and physical abilities, or self-respect in society. Often these measures take a multidimensional view of deprivation, with several indicators combined into 1 measure.

A large literature shows that our perception of who is poor depends on which measures we use.[1–3] Many researchers recognize that low income, consumption, or possession of goods might not exhibit a neatly specified relationship. Amartya Sen[4] referred to the 'direct' method of measuring poverty, which meant observing the lack of basic needs, and the 'income' method, resulting in 2 alternative poverty concepts rather than 2 ways of measuring the same thing.

> The direct method identifies those whose actual consumption fails to meet the accepted conventions of

minimum needs, while the income method is after spotting those who do not have the ability to meet these needs within the behavioural constraints typical in that community.[4]

This article focuses on income-based poverty measures, the most commonly used measures of poverty.[5,6] For these measures, the measure of need and the resources available to meet those needs are expressed in monetary terms. Three poverty measures are examined herein in detail; a relative poverty measure that is often used in international comparisons, the official poverty measure of the United States that is most commonly cited, and a new supplemental poverty measure (SPM) that has been designed to address some of the criticisms of the official poverty measure. Note that other types of measures not examined herein would provide yet another perspective.

One of these important sets of measures are basic needs budgets. A basic needs budget approach, or expert budget, prescribes a set of goods and services that families need and assigns a cost to each of these. Summing these items yields a threshold that is used to determine whether or not a family has adequate resources. There are several studies that illustrate the practice of constructing basic needs budgets.[7–9] Often, however, these basic needs budgets are drawn to represent 'self-sufficiency,' an amount that families would need to meet their needs on their own, without the aid of government benefits. Many of the studies that develop family budgets find thresholds that are approximately twice the official poverty thresholds, suggesting that the poverty measures studied herein describe a level of living that is below a self-sufficient standard.[10] Although not explicitly examined herein, these studies illustrate the difficulty inherent in drawing appropriate poverty thresholds.

International comparisons of poverty most often use an income-based poverty measure referred to as a 'relative income' poverty measure.[11] This measure is typically used in developed countries and in reports that compare poverty rates in the United States with those in other countries. This measure uses information about the distribution of after-tax income and counts as poor those individuals with household income below some percentage of the median of that distribution. The poverty threshold for this measure, then, represents the central tendency of the resource distribution, and poverty rates on the basis of this measure provide information about the shape and size of the lower tail of that distribution.

Figures from the Organization for Economic Cooperation and Development, using 50% of median equivalized income as the poverty threshold, compare child poverty rates across 34 member countries for 2010 and show that children in the United States do not fare well compared with other countries. According to these calculations, on average, 13% of all children were poor in 2010. However, there is wide variation across countries. Child poverty rates were below 9% in Austria and the Nordic countries, but they exceeded 20% in Chile, Israel, Mexico, Spain, Turkey, and the United States.[12] Although these figures and comparisons are often reported in the United States, this is not the poverty measure used for official purposes.

In the United States, there is a designated 'official' measure of poverty.[13] The current official poverty measure was developed in the early 1960s with only a few minor changes implemented since that time.[14] The official measure consists of a set of thresholds for families of different sizes and compositions that are compared with before-tax family income to determine poverty status. At the time they were developed, the official poverty thresholds represented the cost of a minimum diet multiplied by 3 (to allow for expenditures on other goods and services). In general, most estimates of poverty prevalence and studies of the characteristics of the poverty population for the United States use the official measure of poverty.

Over time, concerns about the adequacy of the official measure developed, culminating in a Congressional appropriation in 1990 for an independent scientific study of the concepts, measurement methods, and information needed for a poverty measure.[15] In response, the National Academy of Sciences established the Panel on Poverty and Family Assistance, which released its report, titled *Measuring Poverty: A New Approach*, in the spring of 1995.[6] This report recommended a new official poverty measure for the United States. The SPM generally follows the major recommendations of this expert group.

In March of 2010, an Interagency Technical Working Group on Developing a Supplemental Poverty Measure listed a set of initial starting points to permit the Census Bureau, in cooperation with the Bureau of Labor Statistics, to produce a new measure of poverty.[16] Their suggestions included the following:

(1) The 'SPM thresholds' should represent a dollar amount spent on a basic set of goods that includes food, clothing, shelter, and utilities and a small additional amount to allow for other needs (eg, household supplies, personal care, nonwork-related transportation). This threshold should be adjusted to reflect the needs of different family types and geographic differences in housing costs. The threshold should be set at the mean of expenditures between the 30th and 36th percentiles of the distribution of spending on basic needs.

(2) The 'SPM resources' should be defined as the value of cash income from all sources, plus the value of noncash benefits that are available to buy the basic bundle of goods minus necessary expenses for critical goods and services not included in the thresholds. Noncash benefits include nutrition assistance, subsidized housing, and home energy assistance. Necessary expenses that must be subtracted include income taxes, payroll taxes, childcare and other work-related expenses, child support payments to another household, and contributions toward the cost of medical care and health insurance premiums. The interagency group followed recommendations of the National Academy of Sciences Panel that medical benefits, such as Medicare and Medicaid, should not be added to income, reflecting that medical needs are not included in the thresholds.