



THE POVERTY OF “THE POVERTY RATE”: MEASURE AND MISMEASURE OF WANT IN MODERN AMERICA

By Nicholas Eberstadt

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Since its inception in 1965, America’s official poverty rate (OPR) has been the single most important statistic used to evaluate success or failure in the nation’s efforts to alleviate poverty. Now, in a critical new examination of this widely cited measure, economist and American Enterprise Institute scholar Nicholas Eberstadt concludes that the OPR is a “broken compass”—a flawed index generating increasingly misleading numbers about poverty in the United States.

In *The Poverty of “The Poverty Rate”: Measure and Mismeasure of Want in Modern America* (AEI Press, October 2008), Eberstadt argues that the OPR can no longer reliably track the conditions it was originally designed to monitor and that policymakers should scrap this untrustworthy instrument and replace it with more accurate measures of poverty.

The OPR compares a family’s reported pretax income against a corresponding poverty threshold. The figure is stated in terms of the percentage of officially poor families in relation to the population as a whole. Because the poverty threshold has been constant since 1965, save for adjustments to reflect inflation, the OPR supposedly measures an absolute level of poverty over time. In the forty-odd years since its debut, however, the index has reported increasingly curious and implausible results.

According to the OPR, the poverty rate reached its nadir in 1973 and was actually higher in 2006 than it had been thirty-three years earlier (12.3 percent versus 11.1 percent). Yet, as Eberstadt demonstrates through meticulous analysis of other official U.S. data, the notion that absolute poverty in America is more extensive today than it was in 1973 is sharply inconsistent with other statistical indicators of material well-being, which show broad and significant improvements in living standards for lower-income Americans. For instance:

- The unemployment rate fell slightly between 1973 and 2006, from 4.9 percent to 4.6 percent; at the same time, adult educational attainment rose sharply (from 59.8 percent to 85.5 percent, based on high school graduation rates); and real per-capita income soared by 60 percent.
- Acute undernutrition was pervasive among poor Americans in the early 1960s but improved markedly in subsequent decades. The prevalence of lower-income children who were underweight, for example, fell from 8.4 percent in 1973 to 4.7 percent in 2004. (Ironically, corpulence and obesity now represent greater obstacles to healthy living for poverty-level households.)

- Families below the poverty threshold occupy notably larger and better-appointed homes today than in the past. Overcrowding (defined as more than one person per room) was less common among poor families in 2001 than among non-poor families in 1970. By 2001, poor families were more likely to have televisions, central air conditioning, and microwave ovens (among other household items) than was the typical American household of 1980.
- The proportion of low-income households with cars, trucks, and other motor vehicles has been rising steadily. Between 1985 and 2003 alone, the fraction of impoverished households without motor vehicles fell from 40 percent to 27 percent. By 2003, one in seven households defined as poor had two or more cars.
- Access to health services has improved markedly for low-income households. Children in families below the poverty line in 2004 were more likely to have at least one annual doctor's visit than were those in non-poor families only two decades earlier.

Eberstadt contends that serious errors are built into the OPR's very design. One such error, he argues, is the implicit assumption that poor families will spend no more than their reported annual incomes—in other words, that their income levels are an accurate proxy for their consumption levels. This premise, however, is refuted by decades of data. In 2005, for example, households in the lowest income quintile reported spending almost twice their pretax incomes. In the decades since the OPR was unveiled, moreover, the disparity between reported income and expenditures has been widening, making income no longer credible as a predictor of consumption patterns—or, accordingly, living standards—for America's poorer families.

The OPR was created in 1965 by economists at the Social Security Administration because the government needed a standard by which to evaluate progress in its new "War on Poverty." While the OPR was an ingenious index at the time, considering the limited availability of official data from which it was devised, Eberstadt concludes that the defects of this poverty measure—which has been left untouched for over four decades—are not only glaring today, but irremediable. Income-based measures cannot offer a faithful portrait of consumption patterns or material well-being. Central as the OPR has become to antipoverty policy, Eberstadt argues that it should be discarded and replaced by a more accurate index for describing deprivation. He concludes, "Proponents of more effective antipoverty policies should be in the very front ranks of those advocating more accurate information. . . . Without [it], effective policy action will be impeded."

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