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Broken Yardstick

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THE most widely quoted federal statistic on deprivation and need in modern America is the "poverty rate" -- a measure tracking households with annual incomes below a "poverty threshold" established at the beginning of the Johnson administration's "war on poverty" in the 1960's and adjusted over time for inflation. According to the latest poverty rate estimates -- released by the Census Bureau on Aug. 30 -- the total percentage of Americans living in poverty was higher in 2004 (12.7 percent) than in 1974 (11.2 percent). According to that same report, poverty rates for American families and children were likewise higher last year than three decades earlier.

On its face, this momentous story should have shocked the nation. After all, it suggested (among other alarming things) that Washington's long and expensive campaign to eliminate domestic poverty has been a colossal failure. So why did that poverty rate report end up mostly buried deep inside daily papers?

Maybe because many news editors, like policymakers in Washington, know the dirty little secret about the poverty rate: it just isn't any good. Truth be told, the official poverty rate not only fails to calculate trends in impoverishment with any precision, it even gets the direction wrong.

The profound flaws in our officially calculated poverty rate are revealed by its very intimation that the poverty situation in America was "better" in 1974 than it is today. Those of us of a certain age remember the year 1974 -- in all its recession-plagued, "stagflation"-burdened glory. But even the most basic facts bearing on poverty alleviation confute the proposition that material circumstances in America are harsher for the vulnerable today than three decades ago. Per capita income adjusted for inflation is over 60 percent higher today than in 1974. The unemployment rate is lower, and the percentage of adults with paying jobs is distinctly higher. Thirty years ago, the proportion of adults without a high school diploma was more than twice as high as today (39 percent versus 16 percent). And antipoverty spending is vastly higher today than in 1974, even after inflation adjustments.

In the face of such evidence, what do you call an indicator that stubbornly insists that the percentage of Americans below a fixed poverty threshold has increased? How about "a broken compass?"

The soundings from the poverty rate are further belied by information on actual living standards for low-income Americans. In 1972-73, for example, just 42 percent of the bottom fifth of American households owned a car; in 2003, almost three-quarters of "poverty households" had one. By 2001, only 6 percent of "poverty households" lived in "crowded" homes (more than one person per room) -- down from 26 percent in 1970. By 2003, the fraction of poverty households with central air-conditioning (45 percent) was much higher than the 1980 level for the non-poor (29 percent).

Besides these living trends, there are what we might call the "dying trends": that is to say, America's health and mortality patterns. All strata of America -- including the disadvantaged -- are markedly healthier today than three decades ago. Though the officially calculated poverty rate for children was higher in 2004 than 1974 (17.8 percent versus 15.4 percent), the infant mortality rate -- that most telling measure of wellbeing -- fell by almost three-fifths over those same years, to 6.7 per 1,000 births from 16.7 per 1,000.

The poverty rate is out of step with all these other readings about deprivation in modern America because it was designed to measure the wrong thing. The poverty rate has always been derived from reported household income. (Exigency played a role here: at the start of the war on poverty 40 years ago, those income numbers were already available from the Census Bureau.) But a better gauge of a household's material deprivation is not what it earns, but what it spends. When we look at spending patterns, we immediately see a huge discrepancy between reported incomes and reported expenditures for low-income Americans.

In the Labor Department's latest Consumer Expenditure Survey (2003), the average reported income for the bottom fifth of households was $8,201, while reported outlays came to $18,492 -- well over twice that amount. Over the past generation, that discrepancy widened significantly: back in the early 1970's, the poorest fifth's reported spending exceeded income by 40 percent.

Unfortunately, economists and statisticians have yet to come up with a clear explanation for this gap (which is not explained by in-kind payments like food stamps or other assistance). The divergence may be in part a measurement problem: partly a matter of income under-reporting, partly a consequence of increasing income variability in our more "globalized" economy. But whatever its cause, it does drive home the unreliability of using reported household income as a benchmark for poverty.

For now, however, we should recognize that America has already achieved far more success in the war against want than our sorry poverty rate can admit -- and that we need much better guidance systems for the anti-poverty battles still ahead than this one, arguably the single worst measure in our government's statistical arsenal.

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