Mismeasuring Poverty and Progress

John C. Weicher

The Mistake

In 1969 the federal government decided to change the method of adjusting the poverty line income each year. Instead of changing in proportion to the change in the cost of food, the poverty line henceforth was to be adjusted by the change in the overall Consumer Price Index. And so it has been. This technical change was a mistake, and the mistake has colored and distorted perceptions of the poverty problem.

The change was a mistake because the CPI mismeasured the cost of owning a home—and badly mismeasured it during periods of inflation. For any given year the CPI measured only the cost of buying a home, not the cost of living in it. The cost of homeownership was calculated as the full amount that would be paid by home buyers during the period that they could be expected to own the home, that is, the purchase price and the total amount of all mortgage payments for 15 years.[1] These are large amounts, compared with the current incomes and expenditures of most households, but they were treated as expenses only for those who actually bought houses, about 3 percent of all households in a given year. For the other 60 percent that already owned a home and did not buy another one during the year, no homeownership costs were computed, other than current outlays for property taxes, insurance, and repairs.[2]

Cato Journal, Vol. 6, No. 3 (Winter 1987).

The author is F. K. Weyerhaeuser Scholar in Public Policy Research at the American Enterprise Institute. An earlier version of this paper was presented at the American Enterprise Institute Public Policy Week, December 1985. The author gratefully acknowledges the assistance of Daniel H. Weinberg of the U.S. Department of Health and Human Services in providing the data in Table 2.

[1]The cost of homeownership also includes annual expenditures for property taxes, maintenance, and insurance; these do not pose measurement problems and are omitted from this discussion.

[2]For a more extensive discussion of the problems with the homeownership component of the CPI, see Cagan and Moore (1981, especially pp. 32–43).

This procedure gave too much weight to changes in housing prices. During periods of inflation, these prices rise more rapidly than prices in general, because houses are an asset as well as a consumer good. Inflationary pressures during the late 1960s and the 1970s, for instance, caused problems primarily for those seeking to buy a house for the first time. Families that owned their homes before the inflation developed (that is, most families) enjoyed substantial real capital gains, making it possible for them to buy bigger and better houses. For such families, the price increase reported in the CPI was an increase in wealth, not an increase in the cost of living.[3] In fact, houses proved to be the best hedge against inflation available to most households. (Even greater real price increases occurred for other real assets, such as precious metals, objets d'art, coins, and stamps.)

The CPI also overemphasized changes in mortgage interest rates, which are notoriously volatile. During the early 1970s, the effect of these changes on the CPI was not too great, because mortgage lenders, like most lenders, underestimated the strength and severity of inflation, and did not raise rates to compensate for it. By the end of the 1970s, however, lenders had learned their lesson, and mortgage rates rose dramatically (if erratically). The impact of this increase on the CPI can be judged from the following example: in 1980 the CPI increased by over 13 percent, but in the month of July it did not rise at all; a sharp but temporary drop of 5 percent in mortgage rates that month was enough to offset a double-digit increase across the rest of the marketbasket.

By the end of 1979, the homeownership component amounted to 25 percent of the entire CPI, far in excess of the share that owner-occupied housing actually represented in the typical household budget, and five times the weight of the rental component. This figure was a gross distortion of actual behavior. In 1979, according to the Annual Housing Survey, the median ratio of monthly housing costs to income was 17 percent for homeowners; since homeowners amounted to slightly less than two-thirds of all households, homeownership costs were about 11 percent for the "typical" household. The median rent-income ratio was 26 percent, or about 8 percent of income for the typical household.

The CPI's measurement problem was widely recognized. Several housing market analysts constructed alternative indices that included the increase in the value of the home as an offset to the increase in its price. These measures showed a much smaller increase in the cost of owning a home during the 1970s—in some years, a decrease—

[3]For further discussion of housing and inflation, see Weicher (1984, pp. 155–204).

and resulted in a much smaller increase in the overall CPI.[4] The Bureau of Labor Statistics was aware of the measurement problem at least by 1975 but was unable to correct it until 1983.[5] The bureau now measures the cost of buying a home as its "rental equivalence," or the amount that would have to be paid if the owner actually rented the home from someone else. The rental equivalence measure is used in the National Income and Product Accounts and has been used in the CPI for the last four years.

Consequences of the Mistake for the CPI

The distortion of the CPI measurement of homeownership costs did not matter much in the early years, but gradually it added up to something fairly substantial. Table 1 shows the official CPI and an experimental version using the rental equivalence approach for the years 1967–85.[6] The official CPI went up faster in years of accelerating inflation, and at least as fast as the experimental index even during recessions. As late as 1978, the official index was only about 5 percentage points higher than the experimental index. But as inflation accelerated sharply at the end of the decade, the discrepancy doubled within three years. By 1981, the official CPI was 10 percentage points higher than the experimental index. The difference remained unchanged in 1982, when the process of disinflation was gathering momentum; housing prices in that year rose more slowly than other goods and services, but mortgage rates continued rising for most of the year.

The continued disinflation and the decline in both real housing prices and mortgage rates would have caused the official index to rise more slowly than the experimental index, thus bringing them closer. (The old index would have risen by about 3.0 percent in 1983 and 3.4 percent in 1984, compared with 3.2 and 4.2 percent, respec-

[4]See, for example, Dougherty and Van Order (1982, pp. 154–64).

[5]For a discussion of the problem by a BLS economist and references to much of the literature, see Greenlees (1982, pp. 1–24).

[6]The experimental index, or CPI-U-X1, for the years since 1967 was published in the 1982 and 1983 *Economic Report of the President*. The same technical problem with the homeownership index existed before 1967 as well but was insignificant for practical purposes. Between 1953 (the first year homeownership costs were measured in the CPI) and 1967, the homeownership index increased by 7.2 percent more than the rent index; the overall CPI would have been about 1 percent lower in 1967 if the experimental index had been used since 1953.

TABLE 1

OFFICIAL AND EXPERIMENTAL CONSUMER PRICE INDEX, 1967–85

Year	Consumer Price Index Official (CPI-U)	Consumer Price Index Experimental (CPI-U-X1)	Ratio of Official to Experimental
1967	100.0	100.0	1.000
1968	104.2	103.7	1.005
1969	109.8	108.3	1.014
1970	116.3	113.6	1.024
1971	121.3	118.5	1.024
1972	125.3	122.1	1.026
1973	133.1	129.7	1.026
1974	147.7	142.8	1.030
1975	161.2	154.6	1.043
1976	170.5	163.5	1.043
1977	181.5	173.9	1.044
1978	195.4	185.7	1.052
1979	217.4	203.6	1.068
1980	246.8	226.4	1.090
1981	272.4	247.9	1.099
1982	289.1	263.0	1.099
1983	298.4	271.5	1.099
1984	311.0	283.0	1.099
1985	322.2	293.1	1.099

SOURCE: *Economic Report of the President* (1983, Tables B-54 and B-56; 1986, Table B-55).

tively, by the new method.)[7] But this correction was not made because the official index adopted the rental equivalence approach in 1983, thereby locking in the error, presumably forever, since the CPI is never changed.

Consequences of the Mistake for the Poverty Rate

As the official CPI overstated the increase in prices for all consumers between 1967 and 1982, so the official poverty thresholds, adjusted

[7]Precise calculation of the CPI-U by the old method is not possible from published data, but a close approximation can be made. The old cost of homeownership was continued in the CPI-W in 1983 and 1984. I have combined the changes in the components of homeownership cost and other components of the shelter index (primarily rent) from the CPI-W with the published CPI-U excluding shelter, using the 1982 weights for these components from the two indices as the base period quantities. Other estimating techniques are likely to give very similar results, so far as I can judge from the published data.

by the CPI, overstated the increase in prices for the poor. Indeed, the official CPI makes far less sense as a measure of the "cost of living" for the poor than it does for the population in general. Sixty percent of the poor are renters, and half of those who own are at least 60 years old; the cost of buying a home is surely irrelevant for most of them. Very few poor people buy a home in any year. Data from the Annual Housing Survey for 1981 suggest that less than 1.4 percent of poor households bought a home, compared with 3.2 percent of all households.[8] The CPI has been an inaccurate measure of the behavior of the poor in the housing market.

The overstatement of the official poverty thresholds means that the number of poor people and the poverty rate have also been overstated, and continue to be overstated, if one assumes that the current version of the CPI is appropriate and the one that should have been used all along.[9] Again the error is small at first, but it accumulates over time and becomes large by the end of the 1970s. For 1982, the poverty rate and the number of poor are too high by one-eighth—almost 2 percentage points and over 4 million people. This discrepancy has remained essentially unchanged and will continue as such in the future, unless the mistake in the calculation of the official poverty thresholds is corrected. Table 2 shows the yearly official and adjusted figures for both the rate and the number of poor people.[10]

[8]The AHS does not classify households by poverty status. It does have the income distribution for home buyers during the previous year, but not cross-classified by household size. The typical buying household in 1981 had 2.7 persons; the poverty income for 3-person households was just above $7,000. Fewer than 1.4 percent of buyers had incomes of less than $7,000.

[9]The rental equivalence measures differ between the experimental index and the new CPI. For the former, the rent component of the CPI was used; for the latter, a new sample of rental housing units was drawn, with similar characteristics to owner-occupied housing. Thus the new CPI is not quite the same as the experimental index, but the differences are small. For the first three years, the new homeowners' equivalent rent index rose by 13.1 percent, the rent index by 14.7 percent. Had the latter been used in the CPI instead of the former—that is, had the experimental CPI become the new official index—the CPI would have been two-tenths of 1 percentage point higher in 1985. This suggests that the new official index would have been close to the experimental index between 1967 and 1982, though it is not proof.

[10]The figures shown in Table 2 differ slightly from those in the previous version of this paper presented at the seminar on "The New Meaning of Poverty," American Enterprise Institute Public Policy Week, December 1985. The adjusted rates were provided by Daniel H. Weinberg of the U.S. Department of Health and Human Services, and calculated by him from the data tapes for the Current Population Survey. I have calculated the number of poor people from Weinberg's rates. My earlier figures were calculated from the published Consumer Income annual reports, Series P-60 of the *Current Population Reports*. Because the published data are grouped by income class,

TABLE 2

OFFICIAL AND ADJUSTED POVERTY, 1965–85

	Poverty Rate (Percent)		Number of Poor People (Millions)	
Year[a]	Official	Adjusted	Official	Adjusted
1965	17.3	17.3	33.2	33.2
1966	14.7	14.7	28.5	28.5
1967	14.3	14.3	27.8	27.8
1968	12.8	12.7	25.4	25.2
1969	12.2	11.9	24.1	23.5
1970	12.6	12.2	25.4	24.6
1971	12.5	12.1	25.6	24.8
1972	11.9	11.4	24.5	23.5
1973	11.1	10.6	23.0	22.0
1974	11.6	11.0	23.4	22.3
1975	12.3	11.5	25.9	24.3
1976	11.8	11.0	25.0	23.4
1977	11.6	10.7	24.7	22.9
1978	11.4	10.4	24.5	22.4
1979	11.6	10.5	26.1	23.4
1980	13.0	11.5	29.3	25.9
1981	14.0	12.2	31.8	27.7
1982	15.0	13.2	34.4	30.3
1983	15.3	13.5	35.5	31.2
1984	14.4	12.7	33.7	29.7
1985	14.0	12.3	33.0	29.1

[a]No adjustment for 1965 through 1967.
SOURCE: U.S. Department of Health and Human Services; see supra, n. 10.

To the poor themselves, this is a distinction without a difference. The poverty line is not like the Iron Curtain—if you are close to it, it matters little which side you are on. It is a reasonable effort to estimate the cost of a minimally adequate standard of living, and there is some logic to it, but a family that is $10 above the poverty line is not qualitatively better off than one $10 below it. The latter will not starve; the former will not maintain itself in blooming health. At the same time, a family that is $5,000 below the line is a lot worse off than one just below it, but both are counted equally.

some rounding error was introduced; however, Weinberg's figures differ from my earlier ones by more than 0.1 in only two of the 19 years, and the pattern in the table is unchanged.

Moreover, even with the adjustment, there is still more than enough poverty. Having almost one-eighth of the population in poverty in 1985 (the adjusted rate) is better than having almost one-seventh (the official rate), but it certainly leaves room for improvement.

Consequences of the Mistake for "the Poverty Problem"

If the overstatement of poverty does not make much difference quantitatively, it does matter politically. It has affected our view of the problem of poverty, of what policies should be adopted to ameliorate it, and even our view of our society, its achievements and failures. Despite its recognized limitations, the poverty rate has become *the* newsworthy number about the poor.[11] In that sense, it is like the unemployment rate and the rate of housing starts: such measures need to be qualified and supplemented, and sometimes they are not the best guides to the situation in the society or the economy.

Politically, the important difference between the official and the adjusted poverty rates is not the level but the pattern of change. The adjustment modifies the pattern in two important ways: the long-term trend and the experience of the 1980s both look different. The official rate reached its lowest level in 1973; it rose during the 1973–75 recession but did not return to the 1973 level during the subsequent recovery. The lowest adjusted rate, however, was reached in 1978 and nearly maintained in 1979. In both years, the rate was below the 1973 rate. In the course of the business cycle, the poverty rate had been reduced. Both the official and the adjusted rates rose sharply in the early 1980s, but the official rate rose more, even though the two CPIs rose together after 1981. From its cyclical low in 1978, the official rate rose almost 4 percentage points to 1983, and is still about 2.5 percentage points above the low point. Over the same period, the adjusted rate rose about 3 percentage points and then came down to within 2 percentage points of its lowest level.

These differences are important because there is a widespread popular perception, shared by people with quite different ideologies, that the United States stopped making progress against poverty in the 1970s. My sense is that the perception is ultimately rooted in the fact that the official poverty rate has not fallen for more than a decade.

Consider, for example, Charles Murray's well-known critique of welfare programs, *Losing Ground.* Poverty is discussed in the first

[11]This point was made by each of the papers delivered at the Census Bureau's Conference on the Measurement of Noncash Benefits, Williamsburg, December 1985. See, for example, Chiswick (1985, p. 37).

of his chapters describing the deteriorating condition of the poor and disadvantaged after the creation of the Great Society programs. Murray (1984, p. 58) notes the decline in the official poverty rate during the 1960s and goes on to say:

> Then, after two decades of reasonably steady progress, improvement slowed in the late sixties and stopped altogether in the seventies. The proportion dipped to its low point, 11 percent, in 1973. A higher proportion of the American population was officially poor in 1980 than at any time since 1967.

If the poverty rate had been measured then as it is now, Murray's last two sentences would have to read differently: "The proportion dipped to its low point, 10.5 percent, in 1979. A higher proportion of the American population was officially poor in 1980 than at any time since 1975." That does not sound so bad. Indeed, with those numbers, the sentence would certainly have been written differently.

Consider, alternatively, Lester Thurow's recent proposal for structural reform of the American economy, *The Zero-Sum Solution*. In describing the changing position of the middle class, he states (1985, p. 61):

> Many fall out of the middle class with enough momentum to land in poverty. The percentage of the population living below the poverty line reached a low of 11.1 percent in 1973, hovered between 11 and 12 percent until 1979, and then began a steep ascent—rising to 15.2 percent in 1983. More than 35 million Americans are now living in poverty. One has to go back to 1965 to find a year with a higher incidence of poverty.

Again the paragraph would have to be rewritten. It would still be true that the 1983 poverty rate was high compared with recent experience, but the problem would look more recent and be more clearly related to the recessions of the early 1980s.

The parallels between Murray and Thurow go further. In each case the adjustment in the poverty rate would not affect their analyses of other—in my view, more important—aspects of their arguments. Murray goes on to talk about crime, education, and demographic changes; Thurow discusses increases in economic inequality (not the same as increases in poverty). Nevertheless, both try to buttress their arguments by an appeal to the stubbornly high and rising poverty rate.

Consider finally what the newspaper headlines about each year's poverty statistics might have been in the late 1970s. For 1977, perhaps, "Poverty Rate Falls Slightly, Nears All-Time Low"; for 1978, more certainly, "Poverty Rate Is Lowest Ever"; for 1979, "Poverty RateUnchanged, Remains at Record Low." Such headlines would not create or reinforce negative perceptions of the problem. We might still be concerned that we were not making more rapid progress, but that is different from believing that we are not making any progress.

In fact, we may still be making progress in the 1980s. The lowest poverty rate of this decade occurred at the peak of the last business cycle; since then, we have experienced two recessions, the second of them quite severe, with a very mild and short-lived recovery in between. The recovery from the second recession began at the end of 1982. The current economic recovery has not yet run its course. The consensus of economic forecasters now seems to be that the next recession will not begin before 1988, meaning that 1987 at the earliest will be the next cyclical peak year. Thus it is possible that the poverty rate at the next peak will be lower than it was in 1979. It has, of course, risen very strongly since then, more so than in any previous recession, but the last recession was also the worst of the postwar period.

Ironically, if the CPI had not been changed in 1983, the poverty rate would be lower now, because of the decline in real housing prices and in mortgage rates. Measured with the old homeownership cost index, the poverty rate would have been about 15.2 percent in 1983, instead of 15.3 percent; for 1984, it would have come down to about 14.2 percent, instead of 14.4 percent.[12] The old index was discontinued in mid-1985, but it is clear that the CPI and the poverty rate would have been markedly lower for 1985 if it had still been in use.[13]

Continuing to measure poverty by the old index certainly would not have been right, but it would have partly offset the accumulated discrepancy and it would have looked better. Even the process of correcting the original mistake has contributed to the impression that poverty is an intractable problem.

The significance of the adjustment should not be overemphasized. It is still true that progress against poverty was much slower in the 1970s than in the preceding two decades, as Murray pointed out.

[12]These figures are derived from the estimated change in the old official index (see supra, n. 7).

[13]For five of the first six months of 1985, the new homeowners' equivalent rent index rose more rapidly than the old homeownership index, on a year-over-year basis. In the second half of the year, the rental equivalence measure rose by 3.0 percent. Over the same period, mortgage interest rates *declined* by about 7 percent, and housing prices increased by at most 2.1 percent. These are the two largest components of the old homeownership index. (The old BLS housing price index was discontinued after June 1985; the Census Bureau's "New One-Family House Price Index" increased by 2.1 percent in the last half of the year. Historically, the Census index has increased more rapidly than the BLS index.)

Several explanations have been offered, such as the increasing proportion of female-headed households and the failure of means-tested cash benefits to keep pace with inflation (the latter is still true for the experimental CPI). These are certainly valid and they help explain the changes in the poverty rate over time, but they contribute less to an explanation of changes in the adjusted poverty rate. By the adjusted rate, poverty looks a little more like a cyclical or economic problem, a little less like a secular or structural one.[14]

Who Are the Poor (Adjusted)?

The correction in the poverty rate would not greatly affect the composition of the poverty population, but it would accentuate the trends many analysts have recognized. Table 3 compares the changes in the characteristics of the poor between 1967 and 1984 (the latest year available at this writing), using the official and the adjusted poverty thresholds. The most obvious trend, according to both measures, is the much-discussed "feminization of poverty," in which an increasing share of the poor are members of female-headed families. Children are a slightly declining fraction of the poor, but this is the net effect of disparate trends for families headed by males (nearly all of them married couples) and families headed by women. There has been a sharp decline in poverty among the elderly, and an increase for members of "other races." All these trends are a little more pronounced when the poverty population is calculated on the basis of the adjusted poverty thresholds.

It may seem paradoxical that the adjusted poverty rate shows a more cyclical pattern, while the adjusted poverty population has a higher concentration of individuals likely to be out of the labor force. The data, however, are internally consistent. People who are close to the official poverty line tend to be those who are more willing to work and better able to find a job when the economy is strong. More of them, but not all, are therefore above the adjusted poverty line. Women without husbands, especially such women with children, are typically further below the poverty line to begin with, and are less

[14]Although the foregoing discussion refers specifically only to the official poverty rate, it would apply also to other concepts, such as pretransfer or latent poverty, or the poverty rate after in-kind benefits are included. Published data do not permit easy adjustment of these other concepts, but it seems likely that pretransfer poverty would have declined slightly during the 1970s (though not as fast as in the 1960s and earlier), instead of rising; and poverty net of in-kind benefits would have fallen more sharply than the various published estimates report. The Census data available since 1979 show all measures of poverty net of in-kind benefits moving very closely with the official rate; perhaps the same would be true for adjusted poverty rates.

TABLE 3

COMPOSITION OF THE POVERTY POPULATION, 1967–84
(PROPORTION OF THE POOR IN EACH CATEGORY)

	Official		Adjusted	
Characteristics	1967	1984	1967	1984
Families:				
Female-Headed	31.3	48.1	31.3	49.8
Individuals:				
In Families	82.0	78.5	82.0	78.9
Male-Headed	57.2	43.4	57.2	42.3
Female-Headed	24.8	35.1	24.8	36.6
In Unrelated Subfamilies	NA[a]	1.9	NA[a]	2.0
Unrelated Men	4.7	7.6	4.7	7.7
Unrelated Women	13.3	12.0	13.3	11.4
Children	41.2	38.4	41.2	39.2
In Male-Headed Families	25.9	18.5	25.9	18.0
In Female-Headed Families	15.3	20.1	15.3	21.2
The Elderly	15.5[b]	9.9	15.5[b]	8.7
Race				
White	68.4	68.1	68.4	67.3
Black	30.5	28.2	30.5	28.9

[a]Data not available separately for 1967; included in category "In Families."
[b]Underestimate; includes only household heads and unrelated individuals, omitting elderly spouses, elderly brothers or sisters of the head or spouse, and other elderly relatives.
SOURCE: U.S. Bureau of the Census, "Characteristics of the Population below the Poverty Level" (1977, no. 119, Table 7 [for 1967]; 1984, no. 152, Table 6).

likely, or at least slower, to get jobs during an economic upturn. If these trends in the poverty population continue, eventually the poor may be simply a "hard core" outside the labor force, but that is not the situation now, even by the adjusted rate.

The elderly are an exception. They are concentrated between about 75 percent and 150 percent of the official poverty thresholds, so the adjustment removes more of them from the poverty population, but their situation is not particularly sensitive to the economy.

Where Are the Poor (Adjusted)?

The error may distort the geography of poverty. Published Census reports show that the number of poor people living in big cities rose between 1970 and 1980, and their poverty areas expanded, covering more territory and including more people. The apparent increase in the number of poor people probably results in large part from the measurement problem. Using the official poverty thresholds, the number of poor people in big cities rose from 6.0 to 6.7 million; using the adjusted thresholds, it rose from 5.7 to 5.8 million. Similar calculations cannot be performed for poverty neighborhoods from published data, but it is likely that a number of Census tracts that just barely qualify for poverty status according to the official measure would no longer be poverty areas. A poverty area consists of one or more Census tracts in which at least 20 percent of the population is poor; if the measured number of poor people in central cities were adjusted downwards by over 10 percent, then the number of Census tracts classified as poverty areas would surely be smaller, and the territorial spread of poverty would look less foreboding on municipal maps. Again, this correction would not change the well-being of any individual, but would affect public perceptions about the changing patterns of poverty.[15]

At the same time, any adjustment would surely not alter the perception of who lives in poverty areas. The official statistics show an increasing concentration of the poor, particularly the black and Hispanic poor, within big-city poverty neighborhoods. That is still true. Moreover, the adjustment would probably result in a substantial decline in the measured concentration of the white poor, while still showing a substantial increase among blacks and Hispanics. Perceptions of the concentration of poverty in urban ghettos would probably be sharpened.

Mismeasuring Family Incomes: The Slipping Middle Class?

The distortion in the CPI affects broader measures of economic well-being as well as the poverty rate. The CPI is used to construct the standard measures of real family and household incomes. Because the adjusted CPI rose more slowly than the official index, the growth in real income has been understated. Measured consistently according to the current CPI methodology, real incomes from 1965 to 1981 were lower than they appear to be according to the current CPI.

[15]For an analysis of urban poverty based on the officially measured growth of poverty within big cities and poverty neighborhoods, see Richard P. Nathan, "The Underclass—Will It Always Be With Us?" paper prepared for a symposium at the New School for Social Research, 14 November 1986.

Table 4 shows real median family income, the most commonly cited income figure, adjusted by the official and the corrected CPI. The patterns are similar to those for the poverty rate, and so are the consequences of the correction. Using the official CPI, 1973 is the highest income year; using the corrected index, 1979 is the highest. As with the poor, it appears that the middle class has been losing ground in economic terms for more than a decade. This has occasioned some academic analysis and much popular discussion about the "shrinking middle class."[16]

TABLE 4

REAL MEDIAN FAMILY INCOME, 1967–85
(1985 DOLLARS)

Year	Official (CPI-U)	Adjusted[a] (CPI-U-X1)
1967	$25,560	$23,252
1968	26,691	24,398
1969	27,681	25,529
1970	27,339	25,458
1971	27,319	25,439
1972	28,584	26,684
1973	29,172	27,233
1974	28,145	26,482
1975	27,431	26,009
1976	28,267	26,815
1977	28,419	26,982
1978	29,087	27,842
1979	29,029	28,197
1980	27,446	27,217
1981	26,481	26,470
1982	26,116	26,116
1983	26,642	26,642
1984	27,376	27,376
1985	27,735	27,735
Rates of Increase (%)		
1967–85	+8.5	+19.3
1973–85	−4.9	+ 1.8
1979–85	−4.5	− 1.6

[a]New official CPI-U used after 1982.

SOURCES: *Economic Report of the President* (1983, Tables B-54 and B-56; 1986, Table B-55); U.S. Bureau of the Census, "Characteristics of the Population below the Poverty Level" (1977, no. 119, Table 7 [for 1967]; 1984, no. 152, Table 6).

[16]See, for example, "Is the Middle Class Shrinking?" *Time* (3 November 1986): 54–56;

The official data also give a stronger impression of continuing secular stagnation. It will take perhaps three more years' income growth for the official median income figure to reach the 1973 peak; it should take at most two years, probably only one, to exceed the corrected 1979 high point. The current economic recovery would have to last unusually long for the former to happen, whereas it may well have already lasted long enough for the latter. As with the poverty rate, the corrected pattern of real median family income looks more sensitive to the business cycle.[17]

Again, the correction should be kept in perspective. Real income increased much more rapidly before 1973 than it did afterward, by any measure; the change in the trend has been striking. There is, however, a political difference between slightly declining and slightly rising real incomes.

Policy Implications

The policy implications are in the eye of the beholder. Consider the debate over President Reagan's changes in means-tested programs—the "fairness issue"—in the 1984 campaign. Both sides could find ammunition. The President and his supporters could have noted that benefits were rising more rapidly than the poverty line, and they should be trimmed back. This argument is most relevant to food stamps, housing subsidies, and Medicaid, where Reagan proposed the largest changes. His critics could have rallied behind Bert Lance's adage, "If it ain't broke, don't fix it," and argued that the means-tested benefit programs were not broke and did not need to be changed, because the poverty rate was still coming down.

My guess is that benefit levels in the means-tested programs would probably not be very different. To begin with, they are not tied to the poverty line. Eligibility for food stamps and school lunches has been stated as a fraction of the poverty line, so that fewer people would have been eligible. But when the President requested a lower eligibility limit, Congress approved it for one program and not the

---

and Bradbury (1986, pp. 41–55). Bradbury's article presents especially detailed calculations, using the official CPI.

[17]The difference in the cost of homeownership between the old CPI and the GNP deflator also contributes to differences in income measures calculated from different data series. An example is presented in Ryscavage (1986, pp. 24–29). Ryscavage focuses on differences between real family income, reported by the Census Bureau, and real per capita income, reported by the Bureau of Economic Analysis; the latter is deflated by the GNP deflator (which is close to the present CPI) rather than the CPI. He attributes about a quarter of the difference in growth rates to the difference in deflators.

other. There was no consensus that too many people were automatically entitled to benefits.

The biggest difference would be in Social Security, because it has been indexed to the official CPI since 1974. Year by year since then, benefits would have increased more slowly. By now they would be almost 7 percent lower. That would mean $12 billion less in outlays this year, a tidy sum that would contribute its mite to reducing the federal deficit, and a cumulative $100 billion over the last decade, reducing the national debt by about 4 percent.

All this is conjectural. Congress has been solicitous of the elderly, and might have increased benefits by statute if the current CPI had been in use. Means-tested benefit levels probably would not be much different than they are; the President would probably have proposed the same structural changes, since many of them were based on his experience as governor of California before inflation became a serious problem. Policies might be essentially the same.

I think, however, that our perception of the poverty problem would be different. We would feel a little better about our progress, our economy, and our society. There might be concrete differences, but they would matter less than these intangibles.

References

Bradbury, Katharine L. "The Shrinking Middle Class." *New England Economic Review* (September/October 1986): 41–55.

Cagan, Phillip, and Moore, Geoffrey H. *The Consumer Price Index: Issues and Alternatives.* Washington, D.C.: American Enterprise Institute, 1981.

Chiswick, Barry R. "Evaluation of Census Bureau Procedures for the Measurement of Noncash Benefits and the Incidence of Poverty." In *Proceedings of the Conference on the Measurement of Noncash Benefits, vol. 1.* Washington, D.C.: Government Printing Office, 1985.

Dougherty, Anne, and Van Order, Robert. "Inflation, Housing Costs, and the Consumer Price Index." *American Economic Review* 72 (March 1982): 154–64.

Economic Report of the President (for 1983 and 1986). Washington, D.C.: Government Printing Office.

Greenlees, John S. "An Empirical Evaluation of the CPI Home Purchase Index, 1973–1978." *AREUEA Journal* 10 (Spring 1982): 1–24.

"Is the Middle Class Shrinking?" *Time* (3 November 1986): 54–56.

Murray, Charles. *Losing Ground.* New York: Basic Books, 1984.

Nathan, Richard P. "The Underclass—Will It Always Be With Us?" Paper prepared for sysmposium at the New School for Social Research, 14 November 1986.

Ryscavage, Paul. "Reconciling Divergent Trends in Real Income." *Monthly Labor Review* (July 1986): 24–29.

Thurow, Lester C. *The Zero-Sum Solution: Building a World-Class Economy*. New York: Simon and Schuster, 1985.
U.S. Bureau of the Census. "Characteristics of the Population below the Poverty Level." *Current Population Reports*, Series P-60. Washington, D.C., 1977 and 1984.
Weicher, John C. "Disinflation in the Housing Market." In *Essays in Contemporary Economic Problems: Disinflation*. Edited by William Fellner. Washington, D.C.: American Enterprise Institute, 1984.