

SESSION II – Discussant:

Patricia Ruggles [to be revised by the author]

Well, these were three very interesting presentations and I think they make it clear that before we can really talk about what we want to do to incorporate some measure of health needs into our poverty measures we need to think even more broadly about how we are measuring poverty in the first place. Kathy's recent discussion makes it very clear that you need to think about what question it is you are trying to answer in measuring poverty in order to think about exactly how you want to go about it. We've heard about several different basic approaches this morning; we've heard about the most common approach which is a market basket type approach to measuring poverty where information is collected on one or more basic items of consumption and then that's used to draw some kind of poverty threshold which is then compared to family resources. The official US poverty measure is this type of measure. The consumption item it was based on was a food needs survey which is very similar to the kind of absolute poverty line that was discussed for Latin America. As in the case with the Latin American lines, equivalent scales were derived implicitly by looking at differences in food needs across family types and very little else was accounted for. The National Academy of Sciences study was an attempt to update the Orshansky measure and to make recommendations to account for other kinds of needs and to do a better job of looking at the resources that are compared to needs. The National Academy of Sciences approach which you've heard a fair amount about from Dave and a little bit about from Kathy is not too dissimilar to the market basket measure developed by statistics of Canada. Both involve a survey of basic needs; they both involve setting some kind of standard based on food, clothing, shelter; the NAS panel added in a little bit more; the Canadian approach includes food, clothing, shelter, transportation and other, where other is a small relative measure. Either way it involves going out or setting essentially a set of expert standards in some way or another

as to what's needed in each category. In the case of the National Academy of Sciences the experts decided to throw up their hands at the idea of actually measuring what was needed in each category and instead set the level at a percentage of the median expenditure in each category. The Canadian measure as I understand it, takes more expert driven approach. Although, perhaps I misunderstood that, is that correct? Aha. I think that either one of those methods can be a perfectly reasonable thing to do. I think back to the Watts Commission, many, many years ago which was a commission put together by the Bureau of Labor Statistics when it wanted to update its low income lines in the United States and after setting the issue for sometime, they basically concluded there was no good way to put together a market basket and recommended that we give up by trying to do it. I certainly have great sympathy for their conclusion; it's a very, very difficult thing to do. I think, on the other hand, one thing that we in the United States have discovered is that failure to do so also has consequences. That if you simply stick with an absolute poverty line updated only by prices, eventually you will get to the point where that poverty line falls very far behind what actual standards of living in the country as a whole are. Particularly, if it is based on a food standard and the standards of living rise, the proportion of income spent on food declines as, for example you recently mentioned was already happening in Latin America, where was falling from half to one-third. What happens is that your poverty line becomes increasingly unrealistic in terms of what people actually are spending their money on. In the United States as food expenditures fell between the 1950's -when the survey on which the Orshansky measure was based occurred-, until recently, food expenditures fell from about one-third of all the expenditures down to about one-seventh of all the expenditures; but as those expenditures went down, other expenditures on basic needs rose: housing became a much larger proportion of people's budget. So, a food base expenditure line no longer makes quite as much sense. So, even though it is, I think very difficult to set a threshold and keep it current with current consumption needs and consumption standards, I think it

is very important to do it. I think it matters less exactly how you do it than that you do it and update it from time to time; probably more often than once every 35 or 40 years which is where we are and I do commend the Canadians for making such a serious effort to update their own measures on such a regular basis. I think that is an enormously important thing. Even though I don't think the exact way you said the threshold is necessarily of enormous importance as long as you update it from time to time in a reasonable consistent way, I do think there are things about the threshold that are important. I think it is important to get reasonable equivalence scales, those probably need to be updated from time to time as well but I think that it is very important not to use simple consumption based equivalence scales because consumption based equivalence scales, no matter how you adjust them will tend to make groups of the population who are relatively poor look like they need very low levels of consumption, and make look groups of the population who are relatively wealthy look like they need very high levels of consumption. So, for example if you go out and survey what people spend on different categories of expenditure and then compare, say, young adult males with, say, elderly females, you will discover that apparently young adult males need at least twice as much as elderly females. I find that to be unreasonable as a conclusion, and I think that it really is driven by the fact that they have much more disposable income and therefore, consume more and it gets very difficult to adjust for that fact in creating equivalence scales. So I would not use strictly consumption based equivalence scales, I would attempt to look at what amounts of the items in whatever market basket you come up with each type of group actually consumes but not just what they actually consume, what they would need to consume to maintain a reasonable standard of living. For example, old women frequently don't maintain adequate diets. From working with elderly women I know that many suffer from hypothermia in the winter because they refuse to turn on the heat, things of that sort. These are choices that should not be forced on them because they don't have the money to make other choices and if you base your poverty line only

on what people actually consume you risk forcing those kinds of constraints on them.

I think that some of the points that were made about the need to maintain micro and macro linkages in studying poverty were very important, that the need to use administrative data to tell us more about what people's incomes actually are, I think that is extremely important. I commend your recommendations for using the National Income accounts to update and edit your income survey data. I think that's extremely useful and you are absolutely right getting reasonable measure of household income in the National Accounts is the first step towards using it to analyze the household survey data that you are getting. I think that we, in the United States could certainly do a better job of using administrative data to supplement our income surveys. In particular, I think we need to have more openness between our agencies and allow tax records to be used more readily for research purposes, so that we don't have to do quite as much modeling of income or we could do a little bit more, actually looking at income. I think we could do more with matching across surveys with health data that will save us from some of the modeling efforts that Kathy has had to go through. In general, I think we have data that could be used to solve many of the kinds of measurement problems that people who have talked about if we were able to overcome the administrative problems of combining data across sources of information.

O.K., of course, there are other ways to measure poverty other than comparing resources to a threshold, and before I go on a little bit to talk about resources, I want to mention that we've heard a couple of additional methods that I am not going to discuss at any length but that I think do deserve some consideration. Those are *relative* measures, which include both measures that are simply a percentage of income as in half of median income, and *ratio* approaches, such as the LICO, where the measure is essentially relative shares of income spent of basic goods. A second approach, in addition to the

relative measures is measures of *unmet needs* which were again discussed; those measures come closer to being almost measures of *social deprivation* than they are of strictly income poverty. I think both of these kinds of measures have their place. They answer different questions. From an absolute poverty threshold kind of measure, an absolute poverty threshold measure -where absolute but with an updated market basket- answers the question which people don't have enough to meet basic consumption needs right now; a ratio measure tells you something about income inequality or resource inequality in the country; and an unmet needs measure tells you more broadly what kinds of people don't have the resources to meet these specific needs. I think for policy purposes, most countries tend to feel some need for a somewhat absolute measure, a measure that tells them about which people don't have enough resources to meet basic needs right now and so, that's the kind of measure I am going to continue to focus on, but that doesn't mean that these other measures are not also useful.

Once you have some methodology for setting and updating your thresholds, the second component you need for the absolute type measure is some measure of resources to compare to those thresholds. David mentioned earlier that consumption is a favorite measure by many economists; I think he may also have mentioned that I am not an economist who favors the consumption based measure. My own view would be if you look at people's actual consumption and compare it to a threshold you risk identifying people who can only maintain their consumption through begging or through crime or through extensive borrowing from relatives or other means of that sort. You risk identifying them as non poor when in fact by most people's standards, people who are in that kind of situation would be considered poor. So I would argue that for the very low income, when you have a threshold that is in some sense supposed to be a minimum sufficient standard of living, comparing it to actual consumption is not too helpful, because over any long period of time people who fail to meet that threshold will simply die

and fall out of your sample and therefore, it's not a very interesting measure. I mean, what you need to do is compare your absolute needs standard to a little bit broader measure of resources that effectively tells you what people would be able to consume out of the resources that they have coming in, not including those resources that are, you know, begged, borrowed, or stolen. I think the other piece of it is that one reason a lot of economists like consumption as a measure is because it's thought to be closer to permanent income. In my view, permanent income has absolutely nothing to do with poverty. Poverty is about not having enough to consume what you need right now, it's not about what your lifetime income is. There may be some other concept about a lifetime low income that you might be interested in but for policy purposes typically what you are interested in immediately, is how many people are in danger of starving to death of serious malnutrition, of major health collapses, things of that sort. Not issues like what is their permanent income. Having said that, however, I do think you need to include all of the resources other than those that are either, very short run, borrowing, or stealing in your measure of resources. So, I would argue for a very comprehensive measure of resources that does include all kinds of tangible, non cash benefits that excludes money paid for taxes, that excludes work expenses and so on. So I would argue for a measure of *disposable resources* to compare to your poverty thresholds. I think, again imputed rent is probably not the right housing cost measure to include in such a measure because, I think we should be focused here on disposable income, disposable resources and I think imputed rent doesn't really come close enough to the concept of what you can actually spend on a monthly basis on things other than food, clothing, and shelter. Even for home owners you probably want to go to a measure that looks at what their actual expenditures on housing are -so, tax, maintenance, and so forth- rather than imputed rent because what you really want to do is net out what has to go out in order for them to continue to live and then see what's left over. You don't want to confuse a calculation of asset holdings with a calculation of immediately disposable income. Having said that, I

do think that none of us really take into account availability of assets, in thinking about poverty and I think it would be a useful thing if we did. Studies have shown that in the United States very few low income people have much in the way of assets but it's a continuing concern that people have when they talk about, particularly the elderly poor, there is a feeling that some of them may have significant assets and that they should not be considered poor if they do. So I think that it would not hurt to account for assets separately in thinking about our poverty lines, but I do think we need to think about how to do that in more detail. I think it's important not to assume that assets of some nature, such as housing equity are available without actually investigating that question. I suspect that when it's investigated you will find that housing assets like health expenditures have a very bi-modal distribution and that for a small number of people they are indeed, significant but a small number of low income people, they are indeed significant, but for the vast majority, they are not but I think that's an issue that deserves further thought.

So, finally we come to the question of where health expenditures fit into all of this, or health care needs. Kathy's presentation made it clear that there are two main alternatives here: you can put your *expected needs* in the threshold or you can subtract your *actual needs* from resources. Both of these solutions have some problems. If you put your expected needs in the threshold as Kathy showed, the distribution of needs is in fact extremely bi-modal even if, I mean, it's actually extremely skewed, even if you adjust for age, sex and race and for a distribution that is that skewed an expected value is not ever really going to be a good proxy. As Kathy's work has shown, you overestimate expenditures for most people and underestimate for the few that have a lot of expenditures if you use an expected value approach. Again, since people are more like those who are the outliers in this distribution, those who have very high medical expenses are particularly likely to actually be poor it is going to have even more

implications for a poverty rate than for other kinds of measures if you cut off details of your distribution. So, I feel that including an expected value of medical expenses in the threshold is probably not going to be the best approach if you have highly skewed medical expenses. In a country where you have national health insurance and out of pocket medical expenses do not vary as much across people as they do in the United States, it might be a more reasonable approach, but when you have a distribution that looks like the distribution Kathy showed us, I think it's going to be very difficult to construct thresholds that don't distort the impact of health care cost.

On the other hand, simply subtracting medical out-of-pocket expenditures also has some unattractive features. For example, as Kathy pointed out, many of the uninsured simply don't have access to health care for one reason or another and therefore, have no medical out of pocket expenditures. Does the fact that they don't have access to care and they couldn't spend any money on it, mean that they should not be considered poor?

That doesn't think entirely reasonable. Then there are various kinds of discretionary health expenditures, such as, let's say, plastic surgery that you might want to exclude on the grounds that that's a consumption choice rather than a necessary expenditure.

Finally, even more than with housing you have issues of quality care. If the only care that you have access to is of very poor quality, should we somehow adjust for that in thinking about whether or not a person is poor? These all seem to me to be quite difficult questions; I do think that given how difficult it is to take account of health care needs and how well they are being met within the resource measure, it's important to continue to think about what is the right approach here. It may well be that some piece of health care does need to be in the threshold even if you cannot put all of it in the threshold because of the distribution of actual expenditures in the United States and I suspect in other places where there isn't a nationalized health insurance system. So, I think this is a question

that definitely needs a lot more thought. It seems to me possible that even though I know this is computationally difficult that you might want to have a separate health needs index from your other resource needs -I realize this is an approach rejected by the National Academy because they felt that was too complex- it still seems to me extremely difficult to include all of these things in one measure, but if you are going to include all of these things in one measure, I think that you probably have to come up with a separate measure of access that you somehow incorporate into the threshold as well as thinking about how to adjust for things like quality of care and discretionary expenditures. Thanks, very much.