Poverty in the United States: A Reevaluation

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Historically, long-term growth in the U.S. economy has produced a significant rise in household incomes and a consequent decline in poverty. A major objective of government policy has been to accelerate the reduction in poverty through large-scale transfer programs. However, in the last decade, the official statistics on the low-income population have generated a dismal view of the performance of the economy in eliminating poverty: in 1977 the number of persons classified as poor (24.7 million) was almost the same as in 1968, and yet this statistical plateau coincided with an enormous expansion in the income-tested social programs. Is it possible that the additional billions of dollars spent each year on transfers to the poor were so target-inefficient that they brought no results? Or did the faltering growth rate in the economy lead to a stagnation or decline in the real earnings of low-income households? Alternatively, perhaps the work disincentives (high implicit marginal tax rates) inherent in our multiple benefit welfare system produced a dollar for dollar substitution of transfer income for earned income.

There are, of course, adverse effects attributable to all three factors – lower target efficiency, slowing growth rate, and work-disincentives – but they were not strong enough to produce an abrupt termination of the long-term decline in the poverty population. The overlapping cash and in-kind welfare programs have suffered a small drop in overall target efficiency but, as we shall see, not enough to offset the growth in budgets. Although labor productivity gains and economic growth have slowed, the significant increase in the labor-force resulting from higher participation rates by women has raised household incomes, at least for families with earnings as their main source of income. And while transfer programs do have work-disincentive effects for a substantial number of persons, large portions of the transfers have also gone to the low-income elderly, the disabled, female-headed households with young children, and other groups that generally are outside the labor market. Many of these persons were raised above the poverty line by the more generous multiple welfare programs of the Great Society era, though they would not have increased their incomes appreciably through earnings. Thus, while some may have substituted transfer income for earnings, it was clearly not one hundred percent – transfers *do* have some net anti-poverty effect.

What then has been left out of the picture? This brings us to the crucial omitted factor: the reason that official poverty statistics show little decline in the last decade is simply that they are inadequate in measuring the real improvement which has in fact taken place in low-income households. This failure is related to the definition of income and the definition of the consuming unit employed by the Bureau of Census. To bring these deficiencies into focus, it will be helpful to examine the official poverty standard and its relationship to the Census income concept.

The definition of poverty starts with the concept of a nutritionally adequate diet and is extended by means of a food-total-expenditure multiplier to a minimum adequate amount of other necessities. Families with money incomes insufficient to purchase this minimum amount of food and other necessities are officially designated as "in poverty" or "low-income families," and their numbers and characteristics are published regularly in the Census *Current Population Reports* (CPR). This is the basic data source for scholars and policy analysts concerned with the extent of poverty. Yet, by using and widely disseminating the Census Current Population Survey (CPS) figures, we are grossly distorting the extent of the poverty problem. Poverty is defined and has meaning in real terms, namely, households suffering from inadequate consumption of food, housing, medical care, and other essentials. But the measuring rod used in the Current Population Survey is money income only. Hence, the impact of our major in-kind programs directed at relieving poverty is statistically nullified: food stamps and child nutrition, rent supplements and public housing, medicaid, and so on – all multi-billion dollar programs which now constitute about sixty percent of the income-tested transfer budget – are deemed to have no value to low-income households. This article will attempt to remedy the deficiency by analyzing the trend and current extent of poverty after estimating the value of transfers-in-kind.[1]

How should the in-kind transfers received by low-income households be valued or "cashed out"? Three methods have been suggested: (1) The in-kind transfers can be valued at government cost as shown in the budgets of the federal, state and local governments involved in the programs. (These costs are summarized annually in the *Budget of the United States, Appendix*.) (2) The in-kind transfers can be cashed out at values approximating the market prices of closely comparable goods or services; in some cases, as in food stamps, this merely involves subtracting all administrative costs from the agency budget, that is, using the bonus value of the food stamps issued. (3) Some economists would further reduce market values by estimating the cash-equivalent values of the in-kind transfers to the recipient. These lower cash-equivalent values are supposed to be adjusted for the utility lost when a household is given a more restrictive transfer in-kind rather than in cash. Put another way, it represents an estimate of the sum of money which the household would take in lieu of the in-kind transfer; this could be the same as market value if the household's expenditure pattern is not significantly changed by, for example, receiving food stamps instead of a cash transfer equal to the bonus value of the stamps.

Cashing Out In-Kind Transfers

The method adopted here is to cash out in-kind transfers at market value. In part, the reason for adopting market values rather than cash equivalents (derived from subjective utility functions) is related to the official definition of poverty and its measurement. Theoretically, two approaches to the measurement of poverty may be contrasted. The first, an objective market-basket approach, usually relies on expert judgment to define needs; the experts may draw on data from the fields of nutrition, health care, housing, and so on, and also on household expenditure data to define or identify minimum requirements — and hence the income level defining the poverty

1. Note that all cash welfare transfers *are* included as income in the Census Current Population Survey, but the non-cash or in-kind assistance programs such as those cited above are excluded. In 1959 when the in-kind programs were small this omission was of minor consequence; now their exclusion results in a gross distortion of the poverty problem.

threshold. A second approach is based on a subjective evaluation by each household of its income in relation to its basic needs; hence, there would be a self-classification of poverty or non-poverty status by each household. This contrasts with the objective standard whereby a family's poverty status is decided by someone outside who evaluates the family's income and needs according to "objective" criteria. The official definition used by Census in estimating the poverty population is an objective standard. It was developed by a group in the Social Security Administration (SSA) and was first described by Mollie Orshansky in the *Social Security Bulletin*, January 1965.

The central building block of this official standard was the household's nutritive requirements which were derived from studies done by the National Research Council on recommended dietary allowances (RDA) of protein, carbohydrates, fats, vitamins, and so on. These nutritional needs (elaborated by family size and composition) were not programmed into a minimum cost food package, but were used by the Department of Agriculture to develop an "economy food plan" which considered prevailing tastes and methods of food preparation. This economy food plan, "costed out" on an annual basis for a given size household, became the first segment of the poverty threshold income.

How much was to be allowed for other necessities? Here, the SSA study group looked in vain for minimum standards of adequacy in health care, housing, and other basics. Given the large gaps in expert knowledge of such needs, the poverty specialists resorted to average consumer behavior as revealed in two surveys of consumer expenditures: one prepared by the U.S. Department of Agriculture in 1955 and the other done by the Bureau of Labor Statistics in 1960-61. These studies showed that low-middle income urban families spent about one-third of their income on food. Thus, the cost of the economy food plan was multiplied by three in order to generate the poverty thresholds. The reasoning was that if typical low-middle income families spent three times their food budget for all their basic needs, then three times a nutritionally adequate food budget would be adequate for all needs as well. (For single persons and couples the multipliers were raised in order to reflect the diseconomies of small household units.) The poverty income thresholds are now updated each year from the original 1963 thresholds and extended backward to 1959, by applying the BLS consumer price index.

The emphasis since the 1965 Orshansky article appeared has been on a more detailed specification of the needs of the poverty population, and federal anti-poverty programs have been developed to meet these needs. The poverty professionals have typically viewed the components of the poverty thresholds as in large part open to objective, expert assessment, starting in the mid-nineteen sixties with family nutrition requirements and gradually becoming more target specific with the high protein foods for women, infants and children (the WIC program), type "A" school lunches, breakfast programs, milk programs, and so on. Food programs have been followed by standards for comprehensive medical care, for instance, health maintenance organizations (HMOs) and Medicaid, specifications for day-care centers, space and facility requirements for "safe and decent housing," and so on. Yet, when families are brought out of poverty by programs which deliver the required amounts of food, housing, and medical care, economists frequently evaluate the results from a different perspective, namely, that of the subjective utility and choice model. By reducing in-kind transfers (say, food stamps) to a lower cash-equivalent, families are classified as poor who may be consuming a set of commodities sufficient to meet the objective criteria of the poverty standard. Thus the utility approach is in conflict with the objective needs-based approach upon which the anti-poverty programs and the poverty standard have in large part been built. If the subjective evaluation of transfer income by the recipient is to be made the basis for determining poverty status, then we should be consistent and replace the objective definition of poverty thresholds with the previously mentioned individual welfare standard, namely, the subjective self-classification of poverty status rather than the objective sorting procedure now used.[2]

There is one final problem to be dealt with. In the original poverty standard the non-food components were not actually specified; rather, budget data were used to determine a sum of money sufficient for all the non-food items as a group, even

2. Survey questions necessary to elicit data for a subjective assessment of poverty and the uses of such a measure are discussed in Paglin, *Poverty and Transfers in Kind* (Forthcoming, Hoover Institution Press, Stanford, California, 1979) Ch. 1.

though expertise was subsequently used to delineate many of these other requirements, particularly housing and medical care. Doesn't this mean that by using a market value approach we are over-valuing the non-food in-kind transfers? I believe the answer is no.

Even if we adopt a purely cash-income standard not built on expert assessment of basic needs, it is by no means clear that the in-kind transfers which make up only part of the income stream of low-income households have a lower cash-equivalent value when all elements in the picture are examined. The in-kind transfers have attributes which in certain ways make them superior to an earned cash income of like market value. Traditional economic analysis has focused almost exclusively on the *in-kind* attribute, neglecting the transfer and insurance attributes of the non-cash government programs.

Households receiving significant components of their income stream in the form of in-kind transfers do have less choice than cash income households, but in a broadly specified model the utility gains may be greater than the losses.

Advantages of Transfers-In-Kind

While there is some choice constraint, the households receiving a large part of their income from transfers-in-kind are free of the work-connected expenses in generating earned income; they have more leisure and are spared the monotony of dead-end jobs. Their in-kind income is free of inflation risk: food stamp allotments are revised every six months to keep up with food price changes; public housing tenants do not have to worry about increasing property taxes, escalating fuel and maintenance costs, and higher interest rates that usually are reflected in higher rents. Since the Sparkman and Brooke amendments to the 1969 Housing and Urban Development Act, local public housing authorities get federal subsidies to meet increased operating costs, and tenants are charged no more than 20 to 25 percent of their cash incomes, thus making their rents a declining percentage of real income as in-kind transfers have increased. Despite rapidly rising medical, hospital, and nursing-home costs, medicaid recipients receive a comprehensive package of medical services without concern for meeting the costs through higher charges or increasing medical insurance premiums. Finally, we may note that in-kind and other such need-based transfers are free of the risks of irregularity of earned income and are automatically indexed to the growth in the size of the family, thus eliminating the economic pressures associated with high fertility. Yet, economists in this area have selectively focused on just one dimension of the in-kind transfer: choice on the expenditure side.

The mistake made is in comparing in-kind transfers with a similarly indexed, risk-free, effortless cash transfer. Since most households live on earned income, the proper survey question to ask recipients who could work is this: would you give up your risk-free inflation-proof package of food stamps, rent subsidy, and medicaid coverage (say market value $300 per month) for a job at the minimum wage which after taxes, but before transportation costs, would pay you the same $300? I wonder how many would choose to work an additional 120 hours a month for the benefit of exchanging the in-kind transfers for the cash earnings? I believe most would reject the job as work with close to zero marginal gain, and for some a negative product; if so, then it makes no sense to deflate the market value of the in-kind transfers since they are preferred to an equal cash earned income. And, for those traditionally outside the labor force, the in-kind transfers still have an added insurance premium of some value which covers the risks of inflation in food, medical care, and housing as well as the other risks mentioned.

Adjustments to the Census Cash Income Poverty Estimates

Before adding the market value of in-kind transfers to the low-income segment of the income distribution, a number of adjustments to the CPS income and poverty figures must be made. These can be summarized under the following headings: (1) conversion of low-income thresholds from a family and individual basis to a household basis, (2) adjustment of income for under-reporting, (3) deduction of taxes to arrive at after-tax income suitable for use with the poverty thresholds.

The Current Population Survey uses families and single individuals as consumer units in determining incomes and poverty counts. Unrelated individuals age fourteen or older, living in groups or with families, are classified as poor if their incomes are insufficient to meet the minimum income requirements of a single person living alone. Given the fact that there are significant economies of scale in larger living units, and assuming some sharing of facilities and income, the poverty count is too high if it is not based on the income and costs of the functional living unit, namely the household. (The currently used approach assumes unrealistically that there are no economies of scale and no income sharing unless the persons making up the unit are all related by blood or marriage.) By using the CPS *household* income series which started in 1967, I have recalculated the poverty counts for each household size. For the period 1967-75, the household concept yields poverty estimates between 93 and 96 percent of the official figures. For the years 1959-66, the 1967 percentage revision was used.

The second adjustment of the CPS money income series deals with the problem of under-reporting of income. By comparing the CPS income estimates (by type of income) with independently arrived at totals from the National Income Accounts and administrative budget totals for transfer payments, it is apparent that CPS in recent years reports about 88-90 percent of total income. Under-reporting varies by type of income: wages and salaries approach 98 percent of the bench-mark total; public assistance, 75 percent; social security payments, 90 percent. Although under-reporting at the low (and high) end of the income scale is usually assumed to be greater than in the middle range, the low incomes were adjusted upward only by the overall average percentage under-reported; reasons for this conservative approach are given elsewhere.[3]

Finally, the CPS cash income concept is based on income before income taxes and social security taxes, while the poverty thresholds are based on net spendable income. Since estimates of the number of households not paying federal income taxes match closely with the number of low-income households below the poverty thresholds, particularly in the last twelve years, no revision for income tax was made.[4] Social security

3. *Ibid.*, Ch. 3. Note that the special (Census) Survey of Income and Education (SIE), which roughly trebled the CPS sample size and used personal rather than telephone interviews, came up with a poverty estimate for 1975 of 23,991,000 persons compared with the CPS figure of 25,877,000, a reduction of almost 1.9 million, probably due to fuller reporting of income. See *Current Population Report*, P-60, No. 106, p. 13.

4. While in earlier years some low-income households probably paid small amounts of income taxes, thus increasing the number of poor, this was more than offset by statistical factors pulling in the other direction: (1) the phantom poor included in the CPS poverty counts, and (2)

taxes, however, do reduce the net incomes of poor households since close to half their total incomes is derived from earnings. Hence, these earnings have been reduced by the appropriate social security tax rate for the period 1959 to 1975.

The combined effect of the three cash income adjustments on persons in poverty results in revised estimates which range from 79 percent to 85 percent of the official number counted as poor.

Two general criteria have been used in selecting the in-kind programs for inclusion in the poverty income estimates: (1) A main purpose of the program should be the provision of services specifically to the low-income population through the use of eligibility tests based on income; or if categorical, as in the case of medicaid, the eligible categories should reflect previous screening for poverty characteristics. (2) The goods or services transferred should be private, not public goods, and should be items typically included in the budgets of low-income households. Hence, OEO and HUD Model Cities programs for neighborhood improvement in poor areas are not included because of their public-good characteristics; similarly excluded are legal services for the poor, social work services, subsidized day-care, and various educational and training programs, since

the effect of the earned income credit and other kinds of income excluded by Census.

The phantom poor, or pseudo-poor, include those in the under $1,000 income class who had zero census income or loss. Losses are mainly attributable to family farm operations, other types of small businesses, and persons with negative net rental incomes due to accelerated depreciation on real estate, and so on. The Congressional Budget Office provided me with a computer run of persons in poverty (FY 1976) which excluded the business-loss group from the poverty count; the poverty estimate was thereby reduced by 1,038,000 persons. This substantial group should be removed from the official poverty counts.

A second and related type of overstatement of poverty involves receipts not counted as income and includes all intra-family transfers, such as payments made to support young adults living on their own or support for elderly parents. Also included in poverty counts are income-poor who receive lump-sum inheritances or insurance settlements. More recently, the earned income credit, which is paid to large numbers of low-income families, would raise many above the poverty threshold if such payments were counted as income by Census.

I have not adjusted for these factors in my revised poverty counts because data for the entire period 1959 to 1975 are lacking.

they are not common elements of the low-income household budgets. Finally, only the major federally initiated programs have been included, and all exclusively state and local in-kind services, as well as private charity services, have been excluded because of the paucity of data. Thus, the cashing out of in-kind transfers will be limited to the housing, food, and medical programs described below.

Housing, Nutrition, and Medical Services

In order to determine poverty impacts, the in-kind transfers were distributed by household size and income class from 1959

Table 1

TOTAL IN-KIND TRANSFERS TO THE POOR: HOUSING, FOOD, AND MEDICAL SERVICES*

Year	Housing	Food and Nutrition	Medical	Total Transfers to the Poor (Current $)	Total Transfers to the Poor (1975 $)
1959	103.1	137.6	299.6	540.3	997.6
1960	118.0	95.8	333.9	547.7	995.5
1961	146.1	170.2	384.5	700.8	1260.9
1962	169.3	240.2	481.7	891.2	1585.8
1963	199.2	231.7	567.8	998.7	1755.5
1964	232.6	241.9	645.3	1128.8	1958.7
1965	256.4	260.4	736.3	1253.1	2137.7
1966	267.6	207.1	1066.7	1541.4	2556.2
1967	299.0	213.7	2092.4	2605.1	4199.7
1968	333.9	288.5	2835.0	3457.4	5348.7
1969	386.6	452.2	3513.3	4352.1	6389.9
1970	502.4	816.8	4014.3	5333.5	7392.2
1971	617.6	1674.1	4624.9	6916.6	9191.5
1972	818.4	2060.1	5289.7	8168.2	10508.4
1973	1008.3	2245.5	5961.9	9216.2	11161.7
1974	1153.0	3140.1	6761.6	11054.7	12064.5
1975	1328.2	4243.2	8501.1	14072.5	14072.5

* *In millions of dollars*

Source: M. Paglin, *Poverty and Transfers in Kind*, Ch. 3.

through 1975; this was done on a program-by-program basis using mainly government agency documents and congressional committee reports. Initially, the segment of each program's budget allocated to the non-poor households was discarded as clearly having no antipoverty effect. Hence, as a first step there is shown in Table 1 the market value of transfers to the cash-income poor for the major housing, nutrition, and medical programs. This table was built up from thirteen detailed program tables showing market values and benefit allocations. (See Paglin, *Poverty and Transfers in Kind*, Appendix I.) The second step, involving calculation of "spillovers" and final target efficiency, will be discussed later.

Housing Programs

The income-tested housing programs cashed out were of four types: (1) low-rent public housing, either constructed, purchased, or leased by the local housing authorities, (2) interest subsidies for construction or rehabilitation of rental housing – known as Section 236, (3) interest subsidies for low-income home ownership – Section 235, and (4) rent supplements for use in units constructed under Section 236 so that low-income families could occupy these relatively expensive units, and rent supplements for other existing units.

Nutrition Programs

Six food and nutrition programs have been included in the list of in-kind transfers whose poverty impacts are analyzed. (1) The food distribution program provided free monthly allotments of commodities – thirty-nine pounds of food per person with selections made from a list of about twenty-four foods. The program was phased out in 1974 and has been replaced by the food stamp program, which for several years overlapped with it. (2) The food stamp program started small in 1962, but escalated in the mid 1970s to the second largest income-tested in-kind transfer program, exceeded only by Medicaid. Food stamp offices now cover every county in the United States and the budget is open-ended so that, unlike the housing programs, there is no waiting list or administrative rationing of benefits to eligibles. This open admissions characteristic also typifies the remaining nutrition programs: free school lunches, the school breakfast program (targeted to low-income school districts), the special milk program, and WIC – supplementary foods for women, infants and children.

Medical Care Programs

The principal need-based personal medical care programs were cashed out using an insurance premium method rather than by distributing benefits on the basis of actual individual usage; the latter approach would raise inordinately the incomes of those receiving extensive medical and hospital care in any particular year. Generally, the benefits from each program were averaged among the persons participating in the program. All administrative costs were excluded in order to derive fairly conservative estimates of the value of the health coverage provided. The following programs were cashed out: (1) Medicaid and its predecessors, Medical Assistance (MA) and Medical Assistance for the Aged (MAA); (2) Medicare, but only for the Medicare elderly who were also poor and who received Medicaid tie-in coverage which paid their SMI premiums (hence, only about 15 percent of the Medicare vendor payments for hospital services are included); (3) Maternal and Child Health Care – a program which provides services to families in low-income areas (federal and state funds are used to operate maternity, pediatric, and dental clinics). Not included were OEO neighborhood health clinics and VA health and hospital programs which provide an indeterminate amount of health care for low-income veterans.

The aggregate market value of housing, food, and medical transfers to the poor are shown in Table 1. From 1959 to 1975, housing transfers to the poor in constant dollars went up 7.0 times, food and nutrition transfers 16.7 times, and medical services increased by 15.3 times the 1959 level. The change for all programs was 14.1 times the amount to the poor in 1959. Using constant (1975) dollars, the market value of income-tested in-kind transfers to the poor in 1959 was $998 million, whereas in 1975 it was just over $14 billion. Note that these figures do not represent total program costs or even market values; they are the market value of transfers to the pre-program poor.[5] In 1975 this was about 71 percent of the total market value of transfers generated by these programs.

Table 2 shows the final target efficiency of all programs combined after allowing for spillovers. Column 1 gives the total

5. The pre-program poor are those whose cash incomes are below the poverty threshold *before* we add on the in-kind benefits provided by the program under consideration.

Table 2

TARGET EFFICIENCY MEASURES

	(1)	(2)	(3)
Year	Market Value of In-Kind Transfers (in Millions of Current $)	Transfers to the Poor as % of In-Kind Transfers	Target Efficiency: Col. (2) Adjusted for Spillovers
1959	981.7	55.0	51.7
1960	1011.5	54.1	50.9
1961	1245.7	56.3	52.7
1962	1513.9	58.9	54.9
1963	1676.6	59.6	55.5
1964	1856.6	60.8	56.5
1965	2072.9	60.5	56.1
1966	2441.6	63.1	58.3
1967	3683.1	70.7	64.0
1968	4917.9	70.3	60.9
1969	6172.5	70.5	59.4
1970	7534.0	70.8	58.3
1971	9851.9	70.2	54.8
1972	11769.4	69.4	51.4
1973	13455.0	68.5	50.8
1974	15499.9	71.3	47.9
1975	19680.4	71.5	45.0

Source: M. Paglin, *Poverty and Transfers in Kind*, Ch. 3, Table 6. For explanation of column headings, see text.

market value of the in-kind programs described earlier and includes amounts going to the non-poor. Column 2 shows the percentage of in-kind transfers distributed to those households with money incomes below the poverty thresholds. Column 3 provides an index of final target efficiency, namely, the percentage of total transfers shown in Column 2 adjusted downward to eliminate the benefits which spill over, that is, transfers which raise the household above the poverty threshold rather than just to the poverty line. With our uncoordinated multiple benefit welfare program, some cash-poor households may receive in-kind benefits from many agencies, thus giving them a combined money and in-kind income well above the poverty line. Such excess benefits do not reduce the poverty deficit or the number of the poor and in that sense are not target efficient. Of course, not all the target inefficient transfers are completely misdirected since some go to the near poor or provide more generous benefits to the poor. The high spill-overs in recent years also reflect the trade-offs between target efficiency and other social goals requiring a gradual phasing out of benefits after the poverty income has been reached, rather than an abrupt termination of benefits at the poverty threshold.

The effect of in-kind transfers on the distribution of income, especially below the poverty threshold, is shown for 1975 in Table 3. By converting household incomes into welfare ratios,

Table 3

DISTRIBUTION OF 1975 U.S. POPULATION BY POVERTY STATUS

(1) Welfare Ratio[a]	(2) Number of Persons (in thousands)		(3) Percentage Distribution		(4) Cumulative Percentages[b]	
	Census CPS	This Study Final Revised	Census CPS	This Study Final Revised	Census CPS	This Study Final Revised
0 to 0.49	7733	639	3.7	0.3	3.7	0.3
.5 to .74	7595	2874	3.6	1.4	7.3	1.7
.75 to .99	10550	4249	5.0	2.0	12.3	3.7
1.00 and up	184987	203102	87.7	96.3	100.0	100.0

[a]These four income intervals were converted from dollars to ratios of the poverty thresholds. This allowed us to combine income distributions for seven household size groups. (The first three class intervals represent the poor.) Census figures are from *Current Population Reports*, P-60, No. 106, p. 35.

[b]The cumulative 3.7 percent poor in the last column varies slightly from the 3.6 percent shown in Table 4 due to a small difference in population base used by CPS.

that is, dollar incomes expressed as a proportion of the poverty threshold for the appropriate household size, all size households could be combined into one meaningful distribution. Hence, in Table 3 the income classes are expressed as ratios of the poverty threshold with 1.0 equal to the poverty level income. It is noteworthy that the final revised distribution shows that the *very* poor (under .50 of the poverty threshold) have practically been eliminated by the in-kind transfer programs; in the official cash income statistics they number over 7.7 million persons, while in the post-in-kind transfer distribution they are reduced to 639 thousand. This is not surprising since the food stamp program alone provides assistance equal to about one-third of the poverty level income for such low-income families. Significant reductions are also evident across all the poverty income classes; for 1975 the official census poor number 25.877 million persons while the final revised estimate is 7.762 million. (These figures represent the cumulative totals of the numbers poor shown in the first three lines of Table 3, Column 2.)

Revised Poverty Estimates

The final estimates of poverty (1959 to 1975) after transfers and adjustments are shown in Table 4 and graphically presented in the accompanying Chart A. Both compare the official census estimates with our revised post-in-kind-transfer estimates. The top line of Chart A illustrates the widely-accepted official record of poverty in the U.S.: this indicates that from 1959 to 1968 the number of poor persons was reduced by 15 million, but in the period 1968 to 1975 no decline occurred, just fluctuations (see Table 4, Column 3). Yet, 1968-75 was a period when the market value of income-tested in-kind transfers went from $4.9 billion to $19.7 billion (Table 2, Column 1). The lower line in Chart A tells a different story, closer to reality. The downward trend in poverty has been maintained over the whole period, in the first half largely by increased earnings and cash transfers while in the second half by increased transfers-in-kind which are excluded from the top line. To what extent transfer income has in the latter period been substituted for earned income is a question which remains open. The high marginal tax rates implicit in the multiple benefit welfare system suggest that for those households with employable members, some substitution has occurred, though for other households factors of age, disability, or dependency, make this less likely.

The last two columns of Table 4 compare the official and the revised number of persons in poverty as a percentage of the population. The official poverty rates go from 22.4 percent in 1959 to 12.3 percent in 1975, while our revised post-in-kind-transfer poverty rates go from 17.6 percent to a low 3.6 percent. In terms of absolute numbers, the official figures are 39.5 million persons poor in 1959 and 25.9 million in 1975, a decline of 46 percent. Our final revised figures show 31.1 million poor in 1959 and 7.76 million persons in 1975, a fall of 75 percent in a seventeen year period — a remarkable

Table 4

OFFICIAL AND FINAL REVISED POVERTY ESTIMATES
(Rounded for Easy Reference)

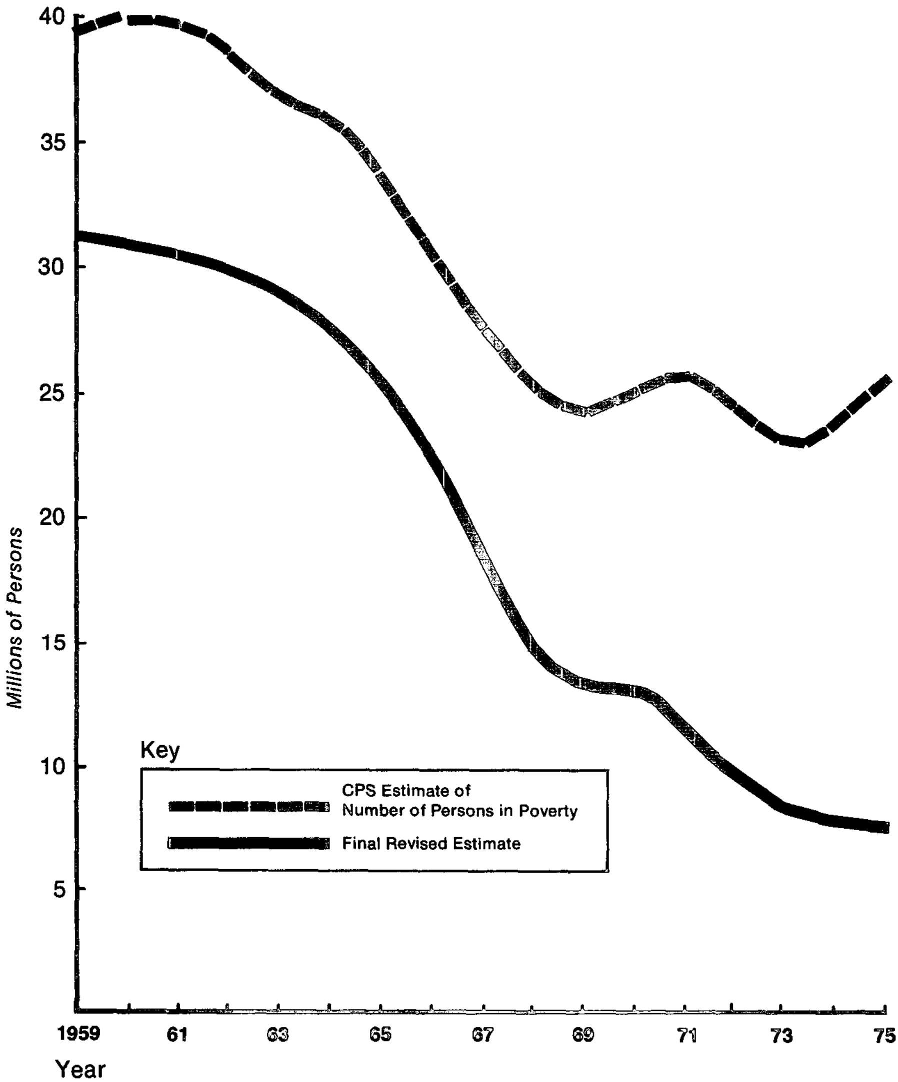
Year	Poverty Deficit* (In Billions of 1975 $)		Persons in Poverty (In Millions of Persons)		Persons in Poverty (As % of Population)	
	(1) Census	(2) Final Revised	(3) Census	(4) Final Revised	(5) Census	(6) Final Revised
1959	25.2	19.4	39.5	31.1	22.4	17.6
1960	25.2	19.0	39.9	30.7	22.2	17.1
1961	25.5	19.3	39.6	30.4	21.9	16.6
1962	24.1	18.3	38.6	29.9	21.0	16.1
1963	22.7	17.1	36.4	29.0	19.5	15.4
1964	21.6	15.7	36.1	27.8	19.0	14.5
1965	20.3	15.0	33.2	25.7	17.3	13.3
1966	18.0	12.8	30.4	22.3	14.7	11.4
1967	17.0	10.2	27.8	18.4	14.2	9.3
1968	15.2	7.2	25.4	14.5	12.8	7.3
1969	15.1	6.7	24.1	13.1	12.1	6.5
1970	16.0	6.9	25.4	13.1	12.6	6.4
1971	16.0	5.6	25.6	11.5	12.5	5.6
1972	15.5	5.0	24.5	9.7	11.9	4.7
1973	14.5	3.9	23.0	8.3	11.1	4.0
1974	14.5	4.1	23.4	8.0	11.2	3.8
1975	16.1	4.1	25.9	7.8	12.3	3.6

* The *poverty deficit* is the amount of money necessary to raise the incomes of all poor persons up to the poverty threshold.

Sources: U.S. Bureau of the Census, *Current Population Reports*, Series P-60, No. 106. "Final Revised" figures reflect adjustments for household basis, under-reporting, taxes, and in-kind transfers — see text.

CHART A

PERSONS IN POVERTY: 1959-75
OFFICIAL AND FINAL REVISED ESTIMATES
AFTER ALL IN-KIND TRANSFERS
HAVE BEEN TAKEN INTO ACCOUNT



SOURCE: Table 4.

record.[6] It is also worth noting that for 1959 our final revised estimate is 79 percent of the Census figure but for 1975 it is only 30 percent as large as the official estimate. It is apparent that the Census cash income measure of poverty has departed further from reality as the in-kind programs have grown to a position of dominance in the income-tested transfer budget.

An acknowledgement of the major impact which the in-kind transfers have had in reducing poverty need not make us insensitive to their faults. The in-kind programs are beset with inconsistent eligibility criteria. They have failed to coordinate program benefits, which has resulted in work disincentives and inequities. But this should not obscure the salient fact that the transfers have been on a sufficiently massive scale to effect a major reduction in the poverty population. It would have been surprising if they had not done so. What is disquieting is the failure to recognize this accomplishment. Social scientists have generally accepted and have given wide currency to the official poverty estimates. It is time for the statistical veil to be lifted so that the poverty problem can be seen in its true dimensions.[7]

6. The phantom poor and other statistical anomalies discussed in footnote 5 above add up to at least 1.5 million persons in 1975. If this is subtracted from the final estimate, the number of poor in 1975 drops to 6.3 million persons, and the poverty rate to 3 percent.

7. The first quasi-official recognition of the inadequacy of the Census poverty statistics is the study done by the Congressional Budget Office (CBO), *Poverty Status of Families Under Alternative Definitions of Income* (revised edition, June 1977). The CBO poverty estimates were made for fiscal year 1976 which overlaps one-half year with my 1975 calendar year estimates. While the CBO poverty figures are much lower than the official ones, they are higher than my final revised estimates for 1975. However, a large part of the difference is conceptual rather than substantive. CBO adds Puerto Rico and the long-term institutional population to the Census population base and, not surprisingly, this adds a few million to the poverty counts both before and after cashing out in-kind transfers. In its published estimates, CBO provides poverty counts only in terms of the number of "family units" (including single person units) rather than in persons. Since small families are over-represented in the poverty population as compared with the total population, this inflates the poverty rate above what it would be if the estimates were reduced to number of persons. If the CBO figures are adjusted for these conceptual differences, their estimate of the percentage of poor after taxes and all transfers goes from 8.3 percent (*loc. cit.*, p. 9) to 5.1 percent. This compares with my 3.6 percent shown in Table 4. For a detailed reconciliation of differences, based on special CBO computer runs, see Paglin, *op.cit.*, Appendix IV.

The Settlements and Peace: Playing the Links With Begin, Carter and Sadat

DOUGLAS J. FEITH

Few things unsettle the Carter Administration quite as much as Israeli settlements in Judea-Samaria (the West Bank). Though these Jewish enclaves are small in number and population, Washington regards them as a large provocation. Whom they provoke more, Washington or the Arabs, is an important riddle. In any case, no U.S. official can view the settlements indifferently without contradicting the premises on which this Administration has built its Middle East peace policy. The settlements and this policy cannot both be justified.

Extravagant publicity has given the settlements an air of inherent importance. Though one could view them merely as symbols of just how basic remain the differences between Arabs and Jews, Administration officials foster the notion that the settlements to some significant degree account for Arab enmity toward Israel, that if the settlements did not exist the Arab world would more readily accept the Jewish state. In the formulation of President Carter, the settlements are not only "contrary to international law," but "an impediment to peace."[1]

Administration policymakers posit that Arab-Israeli peace requires a collective resolution of the grievances dividing Israel and the Arabs. Accordingly, during its first year, the Administration concentrated on preparing a forum, Geneva, for the negotiation of a "comprehensive settlement" for the Middle East. To Washington's continuing chagrin, Anwar Sadat aborted this scheme with his November 1977 Jerusalem visit. While there is little mention of Geneva nowadays, Administration officials retain the conviction that the only kind of Middle East peace worth pursuing is one that includes all of Israel's neighbors.[2] This conviction arises from the belief that not

1. Office of the White House Press Secretary, *White House Statement Following Final Meeting Between President Carter and Egyptian President Sadat: February 8, 1978.*

2. Washington's strong support in the last weeks of 1978 for "linkage" between Egyptian-Israeli peace progress and Israeli concessions regarding