

Comparative Child Poverty Measures

Backgrounder No. 169

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The United States has one of the highest child poverty rates in the developed world, according to some international rankings. However, yardsticks commonly used by the federal government and international organizations to measure poverty in America and other countries are inconsistent with each other, and could be inaccurate or misleading.



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For instance, developed countries commonly use relative measures of poverty that categorize any household below a certain percentage of the national average income as impoverished — regardless of their standard of living. In contrast, deprivation measures define poverty using specific quality of life indicators, but the set of indicators could be arbitrary, and the data gathered by household surveys to determine the extent of poverty could be unreliable. Thus, claims that child poverty is more pervasive in the United States than in other developed countries are at least suspect.

The issue of poverty measurement is important because the United States and other developed countries spend billions of dollars each year on families in poverty, and developed countries send billions of dollars in aid to developing countries to alleviate deprivation, especially among children. Thus, two questions arise: How is child poverty measured in the United States and internationally? And, how accurate are these measures?

The following is a review of several child poverty measures that are being implemented around the world, and some recommendations on how the United States can improve the accuracy of its child poverty measures.

How the OECD Measures Child Poverty. The Organization for Economic Cooperation and Development (OECD), an association of economically developed countries, measures child poverty in member countries and countries that are candidates for membership. Among the OECD countries [see Figure I]:

- Denmark enjoys the lowest poverty rate among developed countries, with 3.7 percent of children living in poverty.
- By contrast, the United States has a higher child poverty rate than 26 other developed countries.
- The OECD claims that more than one-fifth (21.6 percent) of children in the United States live in poverty.

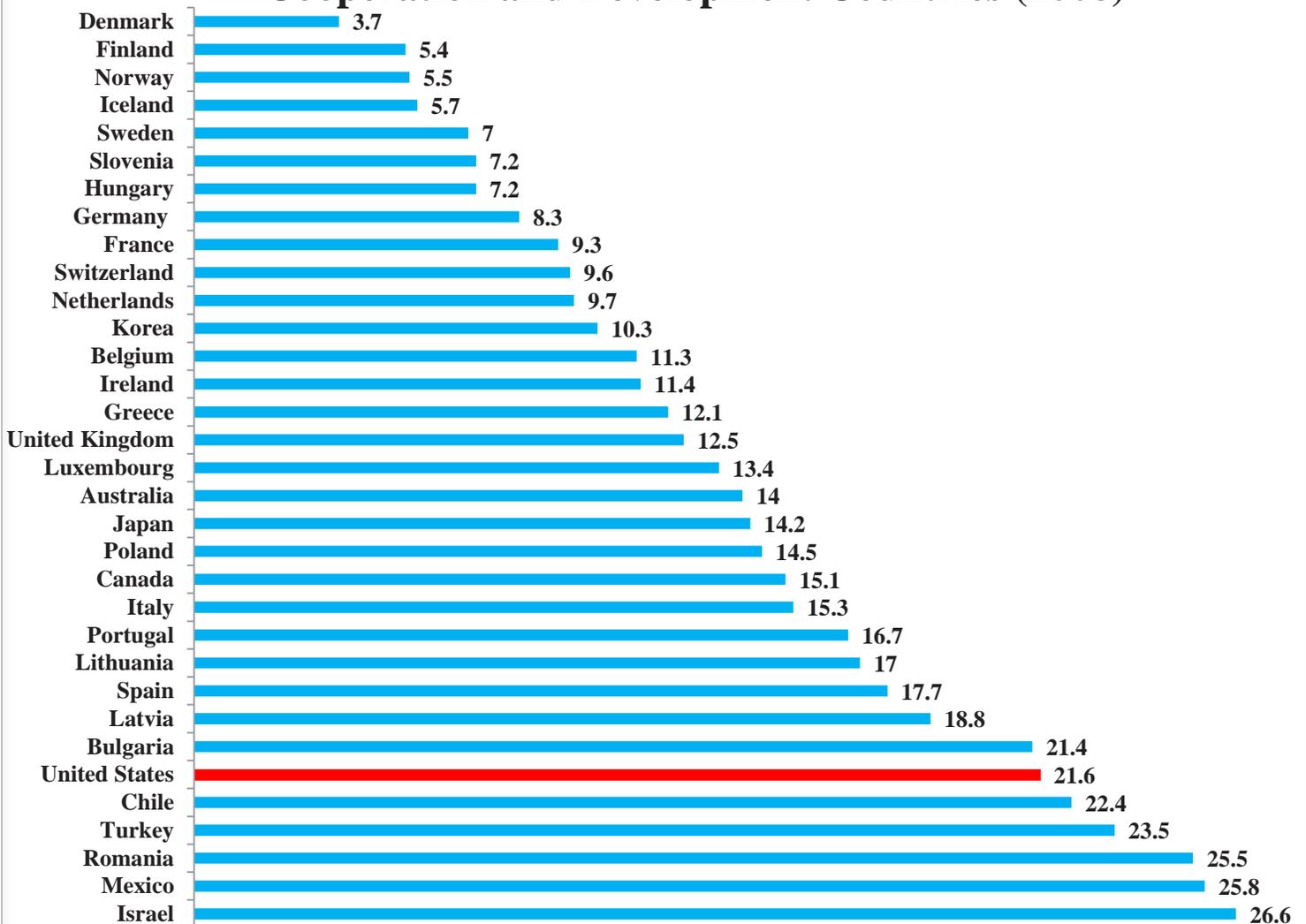
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Does the OECD standard accurately reflect the quality of life of households with poverty level incomes? In OECD rankings, only Israel, Chile, Mexico, Turkey and Romania have higher child poverty rates than the United States.

But these countries have widely differing incomes per capita. As a result, the standard of living at the poverty level also differs widely. For example, according to data from the International Monetary Fund for 2012:¹

- Annual average income in Israel is high at \$31,296 per person, whereas it is only \$7,935 in Romania.
- Yet, the child poverty rate in Israel is higher than in Romania, according to the OECD.

Figure I
Percentage of Children in Poverty in Organization for Economic Cooperation and Development Countries (2008)



Source: Organization for Economic Cooperation and Development, "OECD Family Database," December 2012. Available at <http://www.oecd.org/social/soc/oecdfamilydatabase.htm>. Access verified April 30, 2013.

Table I
U.S. Poverty Thresholds for 2011
 (by household size and number of children under 18 years of age)

| Household size of family unit | Weighted average thresholds | Related children under 18 years | | | | | |
|-------------------------------|-----------------------------|---------------------------------|----------|----------|----------|----------|----------|
| | | None | One | Two | Three | Four | Five |
| Two people..... | \$14, 657 | | | | | | |
| Household under 65 years | \$15,139 | \$15,063 | \$15,504 | | | | |
| Householder 65 years and over | \$13,609 | \$13,596 | \$15,446 | | | | |
| Three people | \$17,916 | \$17,595 | \$18,106 | \$18,123 | | | |
| Four people | \$23,021 | \$23,201 | \$23,581 | \$22,811 | \$22,891 | | |
| Five people | \$27,251 | \$27,979 | \$28,386 | \$27,517 | \$26,844 | \$26,434 | |
| Six people | \$30,847 | \$32,181 | \$32,309 | \$31,643 | \$31,005 | \$30,056 | \$29,494 |

Source: United States Census Bureau, “How the Census Bureau Measures Poverty,” undated. Available at <http://www.census.gov/hhes/www/poverty/about/overview/measure.html>. Access verified April 30, 2013.

■ Similarly, the U.S. child poverty rate is higher than in countries with lower per capita incomes, such as Spain, Latvia and Bulgaria.

The reason child poverty rates appear unrelated to the wealth of a country is because the OECD relies on a measure of *relative* poverty: the share of all children in a country living in households with less than 50 percent of the average (median)

disposable income (adjusted for the number of individuals in the household). Thus, according to OECD statistics, in 2009:²

■ A typical household under the relative poverty line in Turkey had an annual income of €1,809 (or US\$2,413), whereas a household in Switzerland was under the relative poverty line if its annual income was less than €17,704 (US\$23,618).³

■ By contrast, in 2010 the relative poverty-level income in the United States was €10,890 (US\$14,528). (The official poverty threshold used by the U.S. government is discussed below.)

Changes in a relative poverty measure depend on the direction and number of people crossing the poverty threshold.⁴ A relative poverty measure might not change

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when the condition of the poor worsens, because it does not distinguish between those just below the poverty threshold and the desperately destitute (such as individuals living on less than \$1 a day, discussed below).⁵

Measuring child poverty based on household income does little to reveal a child's level of deprivation. Moreover, relative measures do not account for developed countries' benefit programs for children, which often include cash, housing, health care, and day care.⁶ These programs raise a child's living standard by providing resources and services that are not reflected in household income. In the United States, for example, a recent Cato Institute analysis found that in 35 states the average value of welfare benefits was higher than a full-time, minimum-wage job.⁷

Internationally, a relative poverty measure could mean very different living standards, depending on the country. For instance, a yearly income of \$35,000 in a country where essential goods and services, such as health care and child care, are free (or heavily subsidized) implies a much different standard of living than in a country where these items must be paid for at market prices.

How the United States Measures Poverty. The United States is one of the few OECD countries with an official poverty line. It is an absolute measure of poverty-level income, rather than a relative measure. The U.S. poverty threshold today is still based on the

“Orshanky Poverty Threshold,” developed by economist Mollie Orshanky at the U.S. Department of Agriculture in the 1950s. The threshold is based on the minimum income a household needs for a food budget designed for families under economic stress. In the 1960s, after Orshanky went to work at the Social Security Administration, her measure, and survey data about the percentage of their incomes families spent on food, were used as the basis for the Federal Poverty Level (FPL).

The income threshold varies by age and family size and is adjusted annually for inflation.⁸ The current U.S. standard has changed only slightly since it was implemented during President Lyndon Johnson's “war on poverty.” As of 2011 (the latest data available), the Census reported that 46.2 million people, or 15 percent of the total U.S. population, lived in households below the poverty line.⁹

If a household's total income is lower than the threshold, every individual in it is automatically considered under the poverty line. Thus, according to 2011 U.S. Census Bureau data [see Table I]:

- The U.S. poverty threshold for a household with two people under 65 years of age is a yearly income of \$15,135, whereas the threshold for a household consisting of two people, 65 years of age and older, is a yearly income of \$13,609.
- The poverty line for a four-adult household is \$23,021, but only

\$22,891 for a four-member household with three children under 18 years of age.

However, the official U.S. poverty level ignores after-tax cash benefits such as the refundable portion of the child tax credit and the Earned Income Tax Credit, which is given to low-income families even if they have no income tax liability. It also ignores in-kind government benefits such as free-or-reduced-price school lunches, child care assistance, the Supplemental Nutrition Assistance Program (SNAP), Medicaid and housing subsidies, among others. (An experimental measure, that does account for government benefits, is discussed below.)

Furthermore, with the exception of the states of Hawaii and Alaska (where transportation costs are extremely high), the federal poverty level does not account for regional variations in the cost of living.¹⁰ For instance, a family of four living on \$23,000 a year is below the poverty line, but that income will provide a higher standard of living in the Midwest (where the cost of property, groceries, transportation, and other goods and services is substantially lower than average compared to a higher than average) cost area, such as New York City.

Finally, accurately measuring child poverty using an absolute standard is difficult because children usually do not earn income. Further, their well-being depends on factors beyond household income — including whether or not the children benefit

more or less than other individuals from family or household resources.

The Supplemental U.S. Poverty Measure. In addition to the official poverty line, the United States has developed an experimental Supplemental Poverty Measure. The supplemental measure addresses some of the inaccuracies associated with the official standard, but it is not used to determine eligibility for any government benefits.

The supplemental measure is based on a National Academy of Sciences’ proposal to base the poverty line on a budget for food, clothing, shelter, utilities and

small, additional amounts for other needs.¹¹ Table II illustrates how the measure estimates a household’s resources by adding cash income and any government in-kind benefits families could use for food, shelter, clothing and utilities. Taxes, work expenses and out-of-pocket expenditures for medical care are subtracted from the estimated resources.

However, even the supplemental measure does not include the value of some government in-kind services, such as Medicaid. Moreover, it still does not account for regional variation in the cost of living and only tracks spending on

“necessities,” rather than spending of all kinds.

The supplemental measure assumes that unrelated individuals in a household below the age of 15 are poor if their household falls below the poverty line. It also assumes that unrelated individuals living in the household equally share resources with the person answering the survey. Though this assumption may hold true in most instances, the measure does not account for cases of disproportionate resource distribution or resources specifically dedicated to the protection of well-being of an unrelated child in the household.

Table II
Supplemental Poverty Measure
(money income from all sources)

| Plus | Minus |
|--|--|
| Supplemental Nutritional Assistance (SNAP) | Taxes (plus credits such as the Earned Income Tax Credit [EITC]) |
| National School Lunch Program | Expenses Related to Work |
| Supplementary Nutrition Program for Women Infants and Children (WIC) | Child Care Expenses |
| Housing subsidies | Medical Out-of-pocket Expenses (MOOP) |
| Low-income Home Energy Assistance (LIHEAP) | Child Support Paid |

Source: Kathleen Short, “The Research Supplemental Poverty Measure: 2011,” U.S. Census Bureau, Current Population Reports P60-244. Available at <http://www.census.gov/hhes/povmeas/>. Access verified April 30, 2013.

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Take foster children. In the United States, nearly one-half million children live in foster care, and many of them are placed with unrelated adults.¹² The adult responsible for a foster child receives a check from the state government specifically to defray expenses for that child. Further, Medicaid provides services to foster children that adults in the same household might not receive. More generally, in many low-income households, children are eligible for Medicaid, but their parents are not.

Another instance of disproportionate resource distribution within a household that is not accounted for in the supplemental measure is when one or more children receive child-support payments while other children in the same household do not. This can happen when a parent who is outside of the household due to a previous divorce pays for services or resources directed only to the benefit of their own children. Therefore, the children not affected by the divorce who live in the same household do not benefit from those resources or services. Thus, while the supplemental measure expands upon the official poverty line to address some of its limitations, it still does not fully represent overall child poverty.

Access to Amenities in Poor U.S. Households. Household surveys find that many Americans classified as living below the poverty line enjoy a number of amenities that indicate they are far from abject deprivation.^{13,14} For

instance, a 2009 U.S. Department of Energy Residential Energy Consumption Survey found that people below the poverty threshold have access to various household amenities that increase their standard of living, such as a clothes washer, more than one television and a microwave oven.¹⁵ As Figure II shows:

- Nearly two-thirds (64.5 percent) of poor households in the United States have an automatic clothes washer.
- More than three-fourths of poor households have air conditioning (75.7 percent).
- Almost all (99.4 percent) have a refrigerator.

Hunger in Poor U.S. Households. Deprivation of necessities, such as food and shelter, is certainly an indicator of abject poverty. An estimated 46.6 million Americans live in families receiving cash to buy food through the Supplemental Nutrition Assistance Program (SNAP), run by the U.S. Department of Agriculture (USDA).¹⁶ The USDA conducts surveys to determine the extent of hunger, or “food insecurity.” “Very low food security” means that — at some point during the year — a household had difficulty providing adequate food for all its members due to a lack of money or other resources.¹⁷ Over a 12-month period, the USDA says that out of an estimated 6.8 million below-poverty households facing very low food security nationwide:

- Sixty-five percent reported that

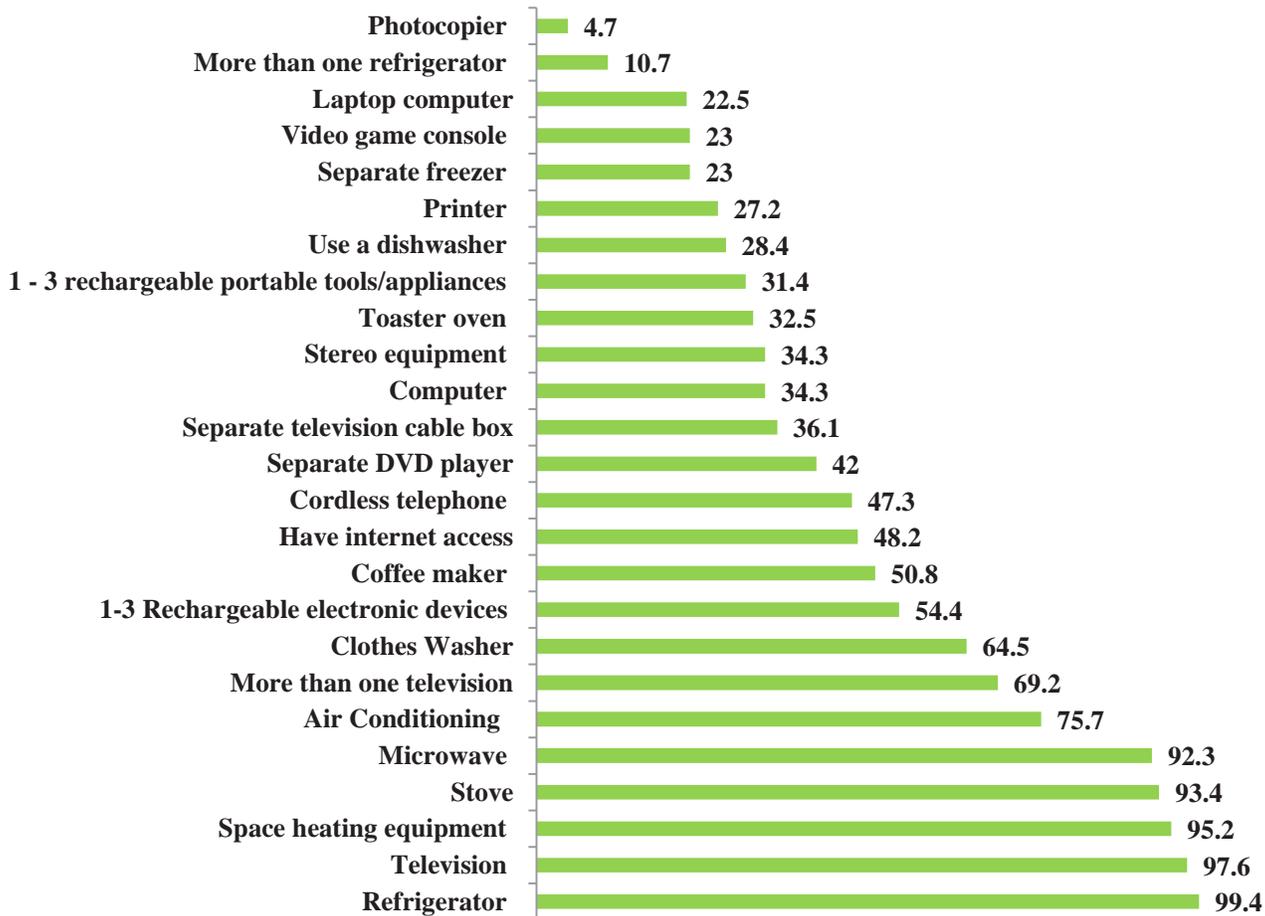
they had been hungry at some point during the year but did not eat because they could not afford enough food.

- Ninety-five percent had eaten less than they thought they should at some point in the year because of a lack of money for food.
- Ninety-nine percent reported having been worried that their food would run out at some point during the year before they received money to buy more.

However, according to the same survey, though nearly 18 percent of all poor households faced very low food security, less than two-and-a-half percent of children in poor households experienced very low food security. [See Figure III.] This discrepancy demonstrates how the absolute income threshold for poverty measurement in the United States cannot make important distinctions with respect to the living standards of households below the poverty line. The USDA’s school lunch, breakfast and dinner programs, for example, help reduce the number of poor children facing hunger, and partially explain differences in food insecurity levels between children and adults in the same household.¹⁸ Hunger among children may also be lower because parents are willing to forgo meals themselves in order to provide food for their children.

How the European Union Measures Poverty. Like the OECD, the European Union uses a relative measure to assess poverty:

Figure II
Percentage of Poor Households in the United States
With Various Amenities (2009)



Source: Source: U.S. Energy Information Administration, “2009 RECS Survey Data,” Residential Energy Consumption Survey (RECS), 2009. Available at <http://www.eia.gov/consumption/residential/data/2009/#undefined>. Access verified June 17, 2013.

households with net incomes of less than 60 percent of national median income.¹⁹ During the post-World War II period, Europeans began to perceive poverty as a relative concept that goes beyond notions of physical deprivation and includes standards of social participation. In 1975, the European Union Council of Ministers implemented a program of pilot schemes and

studies to combat poverty.²⁰ Shortly after, Europeans began to view poverty relative to conditions in a particular country at a specific time.²¹

League Table of Child Deprivation. In a new effort to more accurately measure child deprivation, Europe has more recently developed and adopted “multiple-deprivation” indices

based on household surveys, though deprivation statistics gleaned from surveys may be unreliable.²² In 2009, for the first time, the EU Statistics on Income and Living Conditions survey included a section dedicated to children ages 1 to 16 years, sampling more than 125,000 households in 29 countries.²³ Utilizing this data, the UNICEF Innocenti Research Centre constructed a league table on child

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deprivation and created a 14-item deprivation index.²⁴ This index considers a child deprived when fewer than 13 items are met. Those items include:

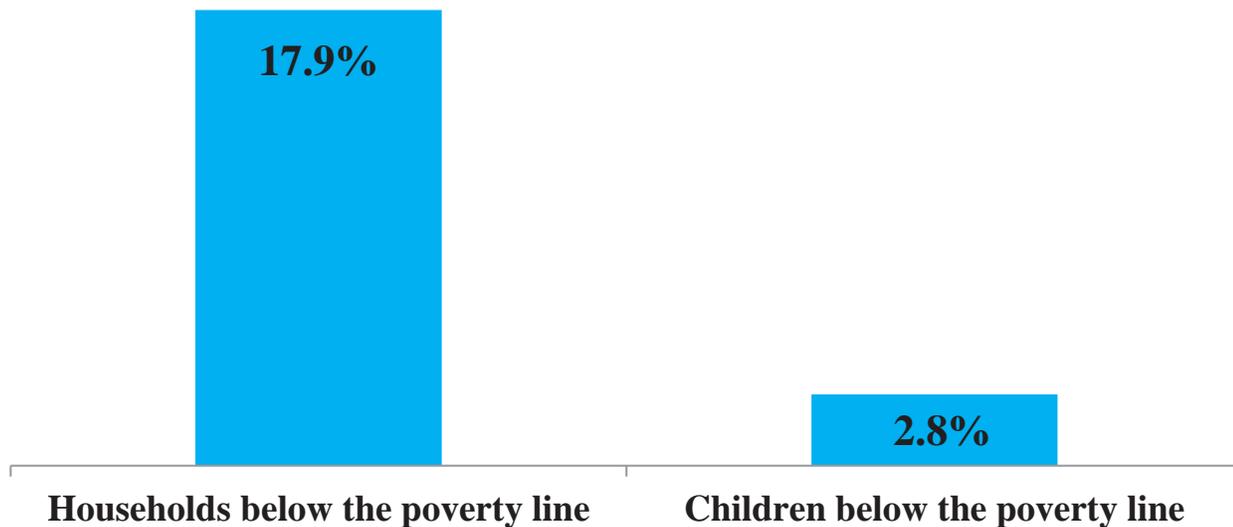
- Three meals a day, and at least one meal a day with meat, chicken or fish (or a vegetarian equivalent).
- Fresh fruits and vegetables every day.
- Books suitable for the child’s age and knowledge level (not including schoolbooks).
- Outdoor leisure equipment (bicycle, roller-skates and so forth).
- Indoor games (at least one per child, including educational baby toys, building blocks, board games, computer games and so forth).
- Money to participate in school trips and events.
- An Internet connection.
- Some new clothes (that is, not all second-hand).
- Two pairs of properly fitting shoes (including at least one pair of all-weather shoes).
- The opportunity, from time to time, to invite friends home to play and eat.

Figure IV shows how EU

countries rank in terms of child poverty, based on the Child Deprivation Index.

While the standard for deprivation is often lower in developing countries, the higher standards of the Child Deprivation Index make assumptions that reflect values in certain developed countries, which may not be shared universally. For instance, the index considers a child deprived if he/she cannot bring friends home to play, or does not have outdoor leisure equipment. But this criterion may not be relevant to views of deprivation in certain regions, communities or households.

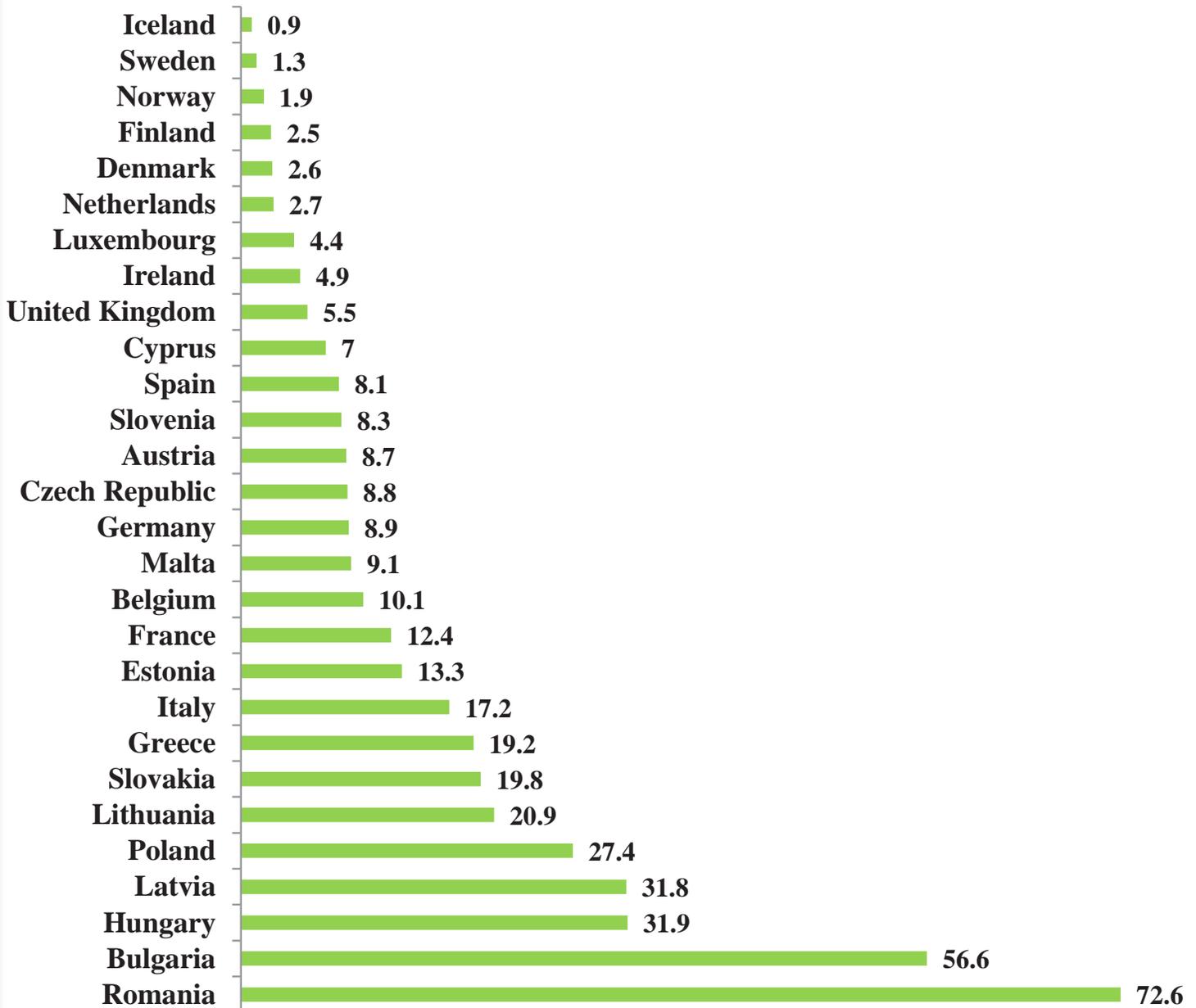
Figure III
Hunger in Poor U.S. Households (2011)*



* Hunger is defined as “very low food security,” meaning that — at some point during the year — a household had difficulty providing adequate food for all its members due to a lack of money or other resources.

Source: United States Department of Agriculture, “Household Food Security in the United States in 2011,” Economic Research Report No. 141, September 2012. Available at <http://www.ers.usda.gov/media/884525/err141.pdf>. Access verified June 18, 2013.

Figure IV
Percentage of European Union Children Living in Deprivation (2009)



Source: UNICEF Innocenti Research Centre, "Measuring Child Poverty," May 2012. Available at http://www.unicef-irc.org/publications/pdf/rc10_eng.pdf. Access verified April 30, 2013.

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If the purpose of a deprivation index is to consider the overall well-being of a child, other crucial measures — such as domestic abuse/security, quality of education, housing conditions and amenities,

and so forth — should be included as well. Furthermore, the EU Statistics on Income and Living Conditions survey may not provide better direct accounts of real living standards. In some cases, parents

who complete the survey are not always objective, and the arbitrary definition of what is “essential” for a child may vary from country to country.

Table III
Multidimensional Poverty Index Indicators

| Dimension | Indicator | Deprived If... |
|------------------|---|---|
| Education | <ol style="list-style-type: none"> 1. Years of Schooling 2. Child School Attendance | <ol style="list-style-type: none"> 1. No household member has completed five years of schooling 2. Any school-aged child (8+ years) is not in school (thru 8th grade) |
| Health | <ol style="list-style-type: none"> 3. Child Mortality 4. Nutrition | <ol style="list-style-type: none"> 3. Any child has died in the family 4. Any adult or child for whom there is nutritional information is malnourished |
| Living Standards | <ol style="list-style-type: none"> 5. Electricity 6. Improved Sanitation 7. Safe Drinking Water 8. Flooring 9. Cooking Fuel 10. Asset Ownership | <ol style="list-style-type: none"> 5. The household has no electricity 6. The household’s sanitation facility is not improved (according to Millennium Development Goals guidelines), or it is improved but shared with other households 7. The household does not have access to safe drinking water, which is more than a 30-minute roundtrip walk from home 8. The household has a dirt, sand or dung floor 9. The household cooks with dung, wood or charcoal 10. The household does not own more than one radio, TV, telephone, bike, motorcycle or refrigerator and does not own a car or truck |

Source: Oxford Poverty and Human Development Initiative, “Multidimensional Poverty Index 2011,” December 2011. Available at <http://www.ophi.org.uk/wp-content/uploads/OPHI-MPI-Brief-2011.pdf>. Access verified April 30, 2013.

Living on Less than a Dollar a Day in Developing Countries.

A popular poverty measure for developing countries follows an absolute poverty line, setting the income threshold at \$1 a day. Since it was implemented in 1990, the World Bank has updated the international average poverty line to \$1.25 a day.²⁵ In 2008, the World Bank estimated that 1.29 billion people in the world lived in absolute poverty. Their definition characterized absolute poverty as severe deprivation of basic human needs, including food, adequate shelter, safe drinking water, and access to education and health services. This poverty measure presumes that anyone living under \$1.25 a day will be deprived of defined, basic human needs. However, the income required for basic human needs is not uniform across locations and time. Furthermore, the measure does not consider other resources that could be available to a poor family, such as benefit programs. Thus, an absolute measure does not provide a truly representative account of abject

poverty in the developing world.

The Multidimensional Poverty Index in Developing Countries. As calls for more precise measures of poverty in developing countries have increased in recent years, the Oxford Poverty and Human Development Initiative (OPHI) created the newest standard for measuring poverty in developing countries for the United Nations Development Program (UNDP). Called the Multidimensional Poverty Index (MPI), it uses indicators beyond income to measure poverty. In its annual Human Development Report, the UNDP applies 10 essential indicators within three dimensions to measure poverty in 10 developing countries.²⁶

As Table III illustrates, the MPI focuses on education, health and other components of living standards (such as water, sanitation and electricity) and deems a person poor if they are deprived in at least 30 percent of the weighted MPI indicators.²⁷ Thus, the MPI is not solely a reflection of the percentage of poor people in the country;

it reflects the intensity of their deprivation. [See the side bar.] For instance:

- In Latin America, Bolivia (one of the poorest countries in Latin America) has an MPI score of 0.089 — which means 20.5 percent of its population lives in poverty and, of that percentage, on average, the poor are deprived in 43.7 percent of the indicators, indicating the intensity of their poverty.²⁸
- One of Africa’s poorest countries, Togo, has an MPI score of 0.284, with 54.3 percent of its population living in poverty, and an average intensity across the poor of 52.4 percent.²⁹
- Cambodia, one of the poorest countries in Southeast Asia, has an MPI score of 0.212. Some 45.9 percent of its population is poor, with an average poverty intensity of 46.1 percent.³⁰

Challenges for Accurate Measurement of Poverty.

International child poverty rankings seek to expose which countries are the most and least effective

Calculating Multidimensional Poverty

The MPI is calculated by multiplying the proportion of that country’s population in poverty (H) by the average intensity of poverty (A). Thus, $MPI = H \times A$. For example, in the MPI index, Sierra Leone has a calculated 77 percent of MPI poor people and an average intensity across the poor of 57 percent:³¹

$$MPI = 77.0 (H) \times 57.0 (A)$$

$$MPI = 0.49$$

Therefore, MPI standards indicate that 77 percent of Sierra Leone’s population is poor, and deprived in at least 30 percent of the weighted indicators. Additionally, the MPI poor population suffers from deprivation in 57 percent of indicators, on average.

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in addressing child deprivation. However, if countries do not agree upon a standard measure, drawing comparisons means little when pressuring countries to address the issue. And because many countries are not addressing the limitations of current child poverty measures, social policies are likely being implemented based on misleading data.

In terms of material deprivation, it appears that children would benefit if each country adopted high standards. But measuring child deprivation requires a multidimensional measure that relates a child's well-being to a country's living standards. A socially-perceived necessities model, which takes into account societies' own perception of what is necessary for a child's overall well-being, may differ from country to country, and encompass specific factors like direct material deprivation (such as sufficient food to avoid malnutrition) as well as less specific considerations, such as having adequate recreational time. Differing social judgments in each country regarding child deprivation are a further challenge to a universal standard of child poverty and the use of comparative measures.

For these reasons, current international child poverty rankings may not adequately compare the well-being of children in different countries. A transparent comparative child poverty measure would have to measure poverty based on a multidimensional poverty and deprivation index and adjust for each

country's agreed-upon standards. Undoubtedly, the lack of uniform data and differing standards would make it cumbersome to construct a fair ranking system.

Recommendations for Child Poverty Measurement in the United States. The United States could develop a child poverty measure based on several indicators currently not considered in the official poverty line. For instance:

- A child poverty measure should account for a household's total income, including government benefit payments and the value of in-kind services received.
- The measure should also account for any disproportionate benefit or income that children in a household receive, such as some children receiving child support while other children in the same household do not.
- A child poverty measure should include adjustments for regional differences in the cost of living.
- Finally, it would be worthwhile for household surveys to include questions about resources available to children that enhance their quality of life, such as children's extracurricular and recreation activities, along with an approximate value of each.

These issues are important because it is necessary to include any factors that significantly influence a child's standard of living when measuring poverty. Moreover, implementing these recommendations would provide

a more accurate account for child poverty than current international rankings represent.

Conclusion. The lack of accuracy with relative measures of poverty, and reliability with surveyed deprivation statistics, challenges the belief that the United States has more pervasive child poverty than other developed countries. Developed countries must improve the accuracy of child deprivation measures in order to effectively target policies to benefit children, especially when attempting to bring about social change.

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Endnotes

- ¹ International Monetary Fund, “Report for Selected Countries and Subjects,” April 2013.
- ² Conversion from Euro to U.S. dollar based on the official European Central Bank’s exchange rate of €1 = \$1.3340 as of August 16, 2013. Daily exchange rate available at <http://www.ecb.int/stats/exchange/eurofxref/html/eurofxref-figure-usd.en.html>.
- ³ A typical household is what an equivalent adult in a household in the middle of the income distribution earns in a year. The term “equivalent” in this sense refers to the equivalence technique in economics in which members of a household receive different weightings. For more information on OECD equivalence scales see <http://www.oecd.org/eco/growth/OECD-Note-EquivalenceScales.pdf>.
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- ¹⁰ Office of the Assistant Secretary for Planning and Evaluation, “2013 Poverty Guidelines,” U.S. Department of Health and Human Services. Available at <http://aspe.hhs.gov/poverty/13poverty.cfm>.
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- ¹⁵ U.S. Energy Information Administration, “2009 RECS Survey Data,” Residential Energy Consumption Survey (RECS), 2009. Available at <http://www.eia.gov/consumption/residential/data/2009/#undefined>. Access verified June 17, 2013.
- ¹⁶ United States Department of Agriculture, “Supplemental Assistance Program: Average Monthly Participation (Persons),” July 2013. Available at <http://www.fns.usda.gov/pd/15SNAPpartPP.htm>. Access verified July 19, 2013.

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The NCPA is a nonprofit, nonpartisan organization established in 1983. Its aim is to examine public policies in areas that have a significant impact on the lives of all Americans — retirement, health care, education, taxes, the economy, the environment — and to propose innovative, market-driven solutions. The NCPA seeks to unleash the power of ideas for positive change by identifying, encouraging and aggressively marketing the best scholarly research.

Health Care Policy.

The NCPA is probably best known for developing the concept of Health Savings Accounts (HSAs), previously known as Medical Savings Accounts (MSAs). NCPA President John C. Goodman is widely acknowledged (*Wall Street Journal*, WebMD and the *National Journal*) as the “Father of HSAs.” NCPA research, public education and briefings for members of Congress and the White House staff helped lead Congress to approve a pilot MSA program for small businesses and the self-employed in 1996 and to vote in 1997 to allow Medicare beneficiaries to have MSAs. In 2003, as part of Medicare reform, Congress and the President made HSAs available to all nonseniors, potentially revolutionizing the entire health care industry. HSAs now are potentially available to 250 million nonelderly Americans.

The NCPA outlined the concept of using federal tax credits to encourage private health insurance and helped formulate bipartisan proposals in both the Senate and the House. The NCPA and BlueCross BlueShield of Texas developed a plan to use money that federal, state and local governments now spend on indigent health care to help the poor purchase health insurance. The SPN Medicaid Exchange, an initiative of the NCPA for the State Policy Network, is identifying and sharing the best ideas for health care reform with researchers and policymakers in every state.

**NCPA President
John C. Goodman is called
the “Father of HSAs” by
The Wall Street Journal, WebMD
and the *National Journal*.**

Taxes & Economic Growth.

The NCPA helped shape the pro-growth approach to tax policy during the 1990s. A package of tax cuts designed by the NCPA and the U.S. Chamber of Commerce in 1991 became the core of the Contract with America in 1994. Three of the five proposals (capital gains tax cut, Roth IRA and eliminating the Social Security earnings penalty) became law. A fourth proposal — rolling back the tax on Social Security benefits — passed the House of Representatives in summer 2002. The NCPA’s proposal for an across-the-board tax cut became the centerpiece of President Bush’s tax cut proposals.

NCPA research demonstrates the benefits of shifting the tax burden on work and productive investment to consumption. An NCPA study by Boston University economist Laurence Kotlikoff analyzed three versions of a consumption tax: a flat tax, a value-added tax and a national sales tax. Based on this work, Dr. Goodman wrote a full-page editorial for *Forbes* (“A Kinder, Gentler Flat Tax”) advocating a version of the flat tax that is both progressive and fair.

A major NCPA study, “Wealth, Inheritance and the Estate Tax,” completely undermines the claim by proponents of the estate tax that it prevents the concentration of wealth in the hands of financial dynasties. Senate Majority Leader Bill Frist (R-TN) and Senator Jon Kyl (R-AZ) distributed a letter to their colleagues about the study. The NCPA recently won the Templeton Freedom Award for its study and report on Free Market Solutions. The report outlines an approach called Enterprise Programs that creates job opportunities for those who face the greatest challenges to employment.

Retirement Reform.

With a grant from the NCPA, economists at Texas A&M University developed a model to evaluate the future of Social Security and Medicare, working under the direction of Thomas R. Saving, who for years was one of two private-sector trustees of Social Security and Medicare.

The NCPA study, “Ten Steps to Baby Boomer Retirement,” shows that as 77 million baby boomers begin to retire, the nation’s institutions are totally unprepared. Promises made under Social Security, Medicare and Medicaid are inadequately funded. State and local institutions are not doing better — millions of government workers are discovering that their pensions are under-funded and local governments are retrenching on post-retirement health care promises.

Pension Reform.

Pension reforms signed into law include ideas to improve 401(k)s developed and proposed by the NCPA and the Brookings Institution. Among the NCPA/Brookings 401(k) reforms are automatic enrollment of employees into companies’ 401(k) plans, automatic contribution rate increases so that workers’ contributions grow with their wages, and better default investment options for workers who do not make an investment choice.

The NCPA's online Social Security calculator allows visitors to discover their expected taxes and benefits and how much they would have accumulated had their taxes been invested privately.

Environment & Energy.

The NCPA's E-Team is one of the largest collections of energy and environmental policy experts and scientists who believe that sound science, economic prosperity and protecting the environment are compatible. The team seeks to correct misinformation and promote sensible solutions to energy and environment problems. A pathbreaking 2001 NCPA study showed that the costs of the Kyoto agreement to reduce carbon emissions in developed countries would far exceed any benefits.

Educating the next generation.

The NCPA's Debate Central is the most comprehensive online site for free information for 400,000 U.S. high school debaters. In 2006, the site drew more than one million hits per month. Debate Central received the prestigious Templeton Freedom Prize for Student Outreach.

Promoting Ideas.

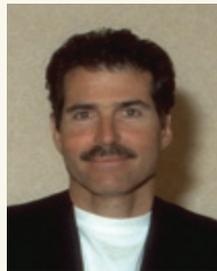
NCPA studies, ideas and experts are quoted frequently in news stories nationwide. Columns written by NCPA scholars appear regularly in national publications such as the *Wall Street Journal*, the *Washington Times*, *USA Today* and many other major-market daily newspapers, as well as on radio talk shows, on television public affairs programs, and in public policy newsletters. According to media figures from *BurrellesLuce*, more than 900,000 people daily read or hear about NCPA ideas and activities somewhere in the United States.

What Others Say About the NCPA



"The NCPA generates more analysis per dollar than any think tank in the country. It does an amazingly good job of going out and finding the right things and talking about them in intelligent ways."

Newt Gingrich, former Speaker of the U.S. House of Representatives



"We know what works. It's what the NCPA talks about: limited government, economic freedom; things like Health Savings Accounts. These things work, allowing people choices. We've seen how this created America."

John Stossel,
host of "Stossel," Fox Business Network



"I don't know of any organization in America that produces better ideas with less money than the NCPA."

Phil Gramm,
former U.S. Senator



"Thank you . . . for advocating such radical causes as balanced budgets, limited government and tax reform, and to be able to try and bring power back to the people."

Tommy Thompson,
former Secretary of Health and Human Services