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STATEMENT OF  
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BEFORE THE  
SUBCOMMITTEE ON CENSUS AND POPULATION  
COMMITTEE ON POST OFFICE AND CIVIL SERVICE  
HOUSE OF REPRESENTATIVES  
ON  
THE CENSUS BUREAU'S CONFERENCE ON  
THE MEASUREMENT OF NONCASH BENEFITS



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Mr. Chairman and Members of the Subcommittee. It is a pleasure to be here today to present GAO's assessment of the Census Bureau's conference on the measurement of noncash benefits. The conference was held last year from December 12 through 14 in Williamsburg, Virginia. As you know, the Bureau's purposes in holding the conference were to assemble a representative group of technical and nontechnical persons with a strong interest in income and poverty data, to inform them about the Bureau's methods and to seek their advice on the best way to measure the receipt and the value of noncash benefits. Further, in testimony before this Subcommittee on October 31, 1985, the Bureau stated that two of the primary goals of the conference were to achieve consensus on key issues and obtain guidance for measurement and research policy on noncash benefits.

At your request, we have examined four questions: (1) What issues were discussed at the conference? (2) Were the invited papers technically adequate? (3) What areas require further study? and (4) Are there important issues that were not covered at the conference?

In answering these questions, we relied on two procedures: observations at the conference and an analysis of the contents of various conference products. More specifically, our staff attended the conference as observers, gathered conference materials, took notes, and tape-recorded sessions in order to check the conference transcripts. We used content analysis as a

tool for examining the papers and conference transcripts in order to identify the issues that were raised (and not raised) and to determine the frequency of participation by the conference attendees. These materials also helped us assess the breadth and depth of issue discussion. Finally, we drew inferences from this material about the utility of the conference as a means of guiding measurement policy and future research in the measurement of noncash benefits.

#### WHAT ISSUES WERE DISCUSSED?

The conference papers and transcripts provided a wealth of critical discussion on issues in measuring noncash benefits, which we have grouped roughly into four categories: (1) concerns raised about the Bureau's methods, (2) potential solutions offered to existing problems, (3) implicit measurement principles, and (4) directions suggested for future research. I will highlight only the most salient features of the discussion on each topic.

#### Concerns raised about the Bureau's methods

As expected, the conference devoted substantial attention to a discussion of the Bureau's methods, including the market value, recipient value, and poverty budget share methods as well as related issues in the measurement of income and poverty. The conference covered three-quarters of the concerns--39 of the 52--that we listed in our October 31 testimony. In addition,

new concerns about the Bureau's methods surfaced. Because they represent important products of the conference, I would like to highlight a few of them here.

First, in discussing the Bureau's general strategy for valuing noncash benefits, one participant pointed out that values for nonsharable benefits received by one member of a family have been treated as if all family members could benefit from them. Consider the following illustration. Suppose a family includes a grandmother who receives Medicare. Under current practices, the Bureau would add the value of the grandmother's medical benefit to the family's total income. Given the relatively large monetary value ascribed to Medicare, all members of the family might be "pushed over" the poverty line, even if most of them have no medical insurance or eligibility for benefits. The overall result is that the poverty rate could be erroneously underestimated. It is obvious that a grandmother living with her son's family, for example, could not share her Medicare benefit with other members of the family in the same way that she could share food stamps or housing benefits.

Another participant pointed out that valuation methods applied separately to food stamps, housing benefits, and medical benefits fail to take into account the additional budget constraints imposed by the receipt of multiple noncash forms of income. In her words:

" With every noncash benefit handed out. . . with every . . . 'script chit' . . . [there is a further] constraining [of] choice and it's not just choice but ability to time payments, to shift your food budget so you can pay the rent, things like that. The more chits, the less each additional one has in value."

Both of these concerns raise the possibility that the monetary values that are presently assigned to some families--by any of the three methods--may overvalue benefits and result in an underestimate of the poverty rate.

Other new measurement concerns were raised about the Bureau's official methods and alternatives to them. Some of these concerns imply that current procedures may instead overestimate poverty. One example of overestimation is the omission of income from the underground economy.

In addition to raising new measurement concerns, the conference discussion extended to new categories of concern--principally, the use and possible misuse of income and poverty statistics. For example, the Bureau's agenda had targeted attention to two major categories of concern. The first was the implications of various changes in the poverty indicator for federal laws and regulations in which allocation of program funds or program eligibility depends on poverty rates or poverty thresholds. The second was the potential loss of data

comparability that could result from a change in the official indicator; for example, expanded definitions of income and poverty that use data from the Current Population Survey would differ substantially from decennial census data.

With regard to the more general and long-standing concern about the comparability of poverty statistics over time, a primary argument for the measurement of federal noncash benefits has been that official poverty trends do not reflect the real improvement in the well-being of the poor that has resulted from these benefits. But, as one participant pointed out at the conference, if income and poverty are now redefined to include federal noncash benefits, the result will not be a simple correction of the trend line. The reason is that today's federal noncash benefits are, to some extent, substitutes for previous state, local, and charitable aid to the poor. These earlier, nonfederal benefits were never part of the official statistics. Therefore, to the extent that federal benefits measured under a new definition are substitutes for previous, unmeasured benefits, the new statistical trends could give the impression that the well-being of the poor had improved--an impression that would in fact be the result of a definitional artifact. This appears to be a serious threat to the validity of the poverty indicator as a barometer of national well-being.

At the broadest level of concern, the use of official poverty rates to gauge the consequences of programs and policies was also

questioned. One participant noted that a simple rate is not likely to be sensitive enough to detect the consequences of programs or policies that do affect the well-being of the poorest Americans. All versions of the poverty rate (not only the version based on cash income but also the versions augmented by noncash benefits) fail to indicate how far below the poverty threshold a family's income is. As a result, increases and decreases in income that occur below the poverty line are not detected. This means, for example, that using the poverty rate, one could not give credit to a program that did in fact improve the well-being of its participants if it did not raise their incomes above the poverty threshold.

#### Potential solutions offered

A number of possible solutions to specific problems of measuring noncash benefits were suggested by several conference participants. For example, four new alternatives were suggested with respect to counting medical benefits as part of income and poverty definitions. The first possibility was to exclude all medical expenditures from income; this would mean subtracting out-of-pocket expenditures as well as not adding medical benefits. A less dramatic solution was also proposed--namely, to exclude catastrophic medical expenditures from the income definition, leaving only the benefits that are associated with "normal medical care." A rather different suggestion was to include all medical expenditures and benefits as income but to use

a new "two-gate" poverty definition. That is, persons would be considered poor if they either did not have sufficient income to meet nonmedical needs or did not have some means of meeting medical needs (such as insurance, eligibility for government benefits, or sufficient cash). A fourth solution was to match benefits added to income with corresponding values added to poverty thresholds.

Of course, there was some disagreement with each of these "solutions." For example, it was pointed out that excluding all medical expenditures would ignore the possibility that a healthy person who has a medical insurance policy may have an increased sense of security and well-being relative to another healthy person who lacks coverage for medical care. Another participant indicated that changing the poverty definition would not solve the income-measurement problem: Using the "two-gate" poverty definition would mean that a new (and reduced) nonmedical-needs threshold would have to be created; minimally adequate coverage would have to be defined; and the amount of cash income necessary to compensate for the lack of adequate health insurance would have to be specified.

Taking a rather different tack, other conference participants suggested that medical care be counted as insurance but that the "risk pool" be broadened in order to spread apparent costs over a larger number of persons. One concrete suggestion was that the risk pool be based on type of coverage

only, so that the same value would be assigned to all beneficiaries--without distinguishing, for example, between elderly and nonelderly recipients. Other ways of broadening the risk pool were also suggested. One was to include relatives of a direct recipient, as beneficiaries, even if they live in other households. Another was to include all persons who would become eligible for a benefit in the event that they became very ill or if their income were to decrease substantially. The broad "risk-pool" approach was also challenged. Its opponents pointed out that persons who had little chance of benefiting in the near future would be assigned values and that real differences in benefits would be ignored.

So far, what I have been reporting is that the conference elicited a diversity of opinions on the nature and scope of conceptual, operational, and computational concerns and many new ideas with regard to both measurement and broader categories of concern. Many of the proffered solutions to these concerns generated several counterproposals. On the other hand, in some areas, we heard apparent agreement at the conference. In principle, the inclusion of employer benefits, the exclusion of taxes, and the need to consider revision of the poverty threshold to include noncash benefits seemed to be generally agreed upon. Further, there seemed to be agreement on the importance of properly counting medical benefits, especially given the potential for large distortions in the poverty rate that could otherwise occur. Disagreement on these issues seemed to revolve around how

to treat specific components of each factor or concern (state, local, sales, and property taxes, for example), whether it would be feasible to value all benefits, and whether one measurement approach would be better than another.

### Implicit measurement principles

Looking across the concerns, solutions, and general comments in the conference papers and transcripts, we identified measurement principles that were often invoked and could be used in future discussions. While measurement principles and criteria were not part of the Bureau's stated agenda, our review of the conference transcripts revealed that participants often defended their points of view by drawing on one or more familiar measurement principles, including consistency, validity, completeness, and equity or fairness.

### Consistency

"Consistency" seemed to mean to the participants that components used in the measurement of poverty are conceptually parallel. Some participants maintained, for example, that elements of the poverty threshold should be consistent with income definitions; thus, the treatment of such elements as taxes in the income definition should be consistent with the implicit or explicit treatment of taxes in the poverty threshold definition.

## Validity

The tenor of the discussion suggested that, at a minimum, a valid measure or indicator of poverty does not systematically distort the poverty rate. Some participants noted that the "normal expenditures" approach the Bureau uses to measure recipient value is a poor proxy for the theoretical notion of utility to the recipient. For example, the present procedure could systematically overestimate or underestimate the value recipients place on benefits and have a corresponding effect on the poverty rate.

## Completeness

"Completeness" seemed to mean to the participants that an appropriate measure of poverty does not omit important elements. For example, the alternative definitions of income used in the Bureau's technical papers on noncash benefits and poverty were said to be incomplete in that they take only selected noncash benefits into consideration. The alternative definitions were said to be incomplete also in the sense that benefits to the nonpoor are not counted in them.

## Equity and fairness

Conference participants seemed concerned that the components of the measure of poverty either include all persons

and all benefits or use appropriate principles for defining the subset to be included. For example, some participants noted that if it is not feasible to account for all benefits, then appropriate criteria such as "fungibility" (that is, whether the benefit frees up cash for other uses) would be necessary in order to fairly determine the benefits that are to be accounted for.

This list of four measurement principles--consistency, validity, completeness, and equity--is, in all likelihood, incomplete and, at present, too broadly stated for practicability. However, it seems that specific questions based on principles such as these could be applied to decisions about income definition and could play a very useful role in the formulation of measurement policy.

#### Directions suggested for future research

In suggesting some directions for future research, the conference participants generally indicated the need for empirical research that examines technical concerns and explores new solutions. Some participants indicated, for example, that empirical research is needed to improve the methods that are used in valuing housing subsidies, to assess selectivity bias in the "normal expenditures" method, and to estimate the effect underreporting of income has on poverty statistics.

Some participants also suggested that various potential solutions be "tried out" to show the difference they make in the poverty rate. Here, a notable suggestion was that the Bureau explore changing the poverty threshold for consistency with the income definition. More specifically, it was suggested that the Bureau develop alternative poverty thresholds for use with alternative definitions of income in the technical papers on noncash benefits and poverty.

In summary, then, our answer to your question about the issues that were discussed at the conference is that the deliberations yielded many ideas relevant to the Bureau's efforts to value noncash benefits and to measure income and poverty. However, the utility of these ideas for establishing policy should be examined in light of the technical adequacy of the discussion, the comprehensiveness of its coverage, and the representativeness of the views that were expressed. I will now turn to these issues.

#### TECHNICAL ADEQUACY, COVERAGE AND REPRESENTATIVENESS

The second question asked us to evaluate the technical adequacy of the conference papers. In general, the papers seemed to present logical arguments and reasonably balanced summaries of issues. However, they did not include systematic literature reviews or substantial empirical work. Therefore, given the

nature and scope of these papers, we were not able to conduct a thorough assessment of their technical adequacy.

The formal presentations focused primarily on conceptual, rather than operational or computational, issues. When empirical evidence was presented, the descriptions of research procedures were insufficiently detailed to allow an assessment. It is not obvious why a greater emphasis had not been placed on new empirical analysis by the Bureau in its original charge to the authors it selected, particularly since there were numerous calls at the conference for research on major technical issues (and since we had made similar calls in testimony prior to the conference). The absence of empirical research is especially regrettable because the invitation to deliver papers represented the only opportunity at the conference to empirically reduce some of the uncertainties surrounding these major technical issues.

We were also asked to assess the need for further study and to indicate whether important issues were not covered. Judgments about the need for further study and the noncoverage of issues depend on three subquestions about the conference participation: Who attended the conference? What were the opportunities to prepare for and participate in the conference? Who were the major participants? Assessing the need for further study and whether important issues were omitted also depends on the diversity of

opinions with respect to the issue areas, or a fourth subquestion:  
How wide was the diversity of views?

Who attended the conference?

Of the 104 persons who accepted the Census Bureau's invitation to the conference, 44 percent were from universities or nongovernment research organizations, 17 percent were from the Bureau, 14 percent were from other executive agencies, 13 percent represented a variety of other organizations such as state government and advocacy groups, and 11 percent were congressional staff. More than half of all those who attended seemed to be economists, as evidenced by job titles and by membership in the American Economics Association.

Opportunities to prepare for conference discussions

For most of the persons who attended the conference, opportunities to review the papers and to prepare for conference discussions were limited. The four papers that were presented at the conference were not mailed to participants in advance; instead, they were distributed at the conference registration, leaving little time for a review of the written documents. The five specific "discussion points" selected by the Bureau for the small group discussions were also distributed at registration. Moreover, while two of these discussion points were assigned to each group, these assignments were not announced until just before

each group convened, and the general participants were given no choice of which discussion group they would attend. Thus, the opportunity to prepare for discussions, which sometimes included in-depth debate, was not adequate.

### Opportunities to participate

The official agenda indicated that the participants were scheduled to spend half the conference time (5-1/2 to 6 hours) listening to presentations by Bureau staff and invited speakers and half (5-1/2 hours) in sessions that allowed some discussion among the participants. Their input was to be made in the five concurrent discussion groups and in the closing "open-mike" session. In addition, 2 hours were set aside for informal discussion at a mixer and a reception.

### Who participated?

In other words, the conference involved three general activities: paper presentations, guided group discussions, and the open-mike contributions. In practice, not all participants contributed equally to the group discussions or the open-mike segment of the conference. The levels of participation can be grouped into three categories: major, minor, and none. We defined "major participants" to include the persons who had been invited to speak at the plenary sessions, the persons who contributed more than 10% of the remarks in their discussion group

(more than 20 minutes, on the average), the persons designated to be rapporteurs (reporters) on individual group discussions during the "wrap-up" plenary session, and all the persons who spoke during the "open-mike" portion of the wrap-up session. The "minor participants" are defined as those individuals who contributed less than 10 percent of the group discussions. "Nonparticipants" were persons at the conference who did not contribute to the group discussion or the open-mike session.

In the plenary session where papers were presented:

- Almost all of the 14 presenters and discussants were nongovernment researchers.
- The majority of the 14 presenters and discussants were experts in the statistical definition of income and poverty or in the general area of noncash benefits.
- All 14 were economists.

In the group discussions:

- 13 individuals in the five groups delivered more than 40 percent of the remarks made in the small group discussions; that is, in any one group, 2 or 3 persons

contributed more than 40 percent of the remarks.

-- Three-quarters of these major speakers (10 of the 13) were either group leaders from the Bureau or nongovernment researchers.

-- 85 percent of the major speakers (11 of the 13) were experts in general noncash benefits and the statistical definition of income.

In the open-mike session on the last day of the conference:

-- 20 persons spoke at the mike.

-- 40 percent of them were nongovernment researchers, 30 percent were from organizations such as state government and advocacy groups, 15 percent were Congressional staff, 5 percent were from the Bureau, and 10 percent were from other executive branch agencies.

-- About half the speakers (11 of the 20) were not economists.

-- During this session a broader base of expertise areas was represented; 5 of the 20 speakers were specialists in particular types of noncash benefits; 3 were experts on federal laws; and 2 were experts on poverty among minorities.

### Individual major participation

The major contributors to the small group discussions included some persons who had been invited as plenary speakers. Therefore, when counting major participants in the conference as a whole, we avoided double-counting of individuals; that is, we defined as major participants those who qualified in one or more conference sessions.

Overall, 45 of the 104 attendees were major participants in at least one category of our definition, and more than 60 percent of the 45 were economists. Nearly half of the 45 major participants were nongovernment researchers, and nearly one-fifth of the 45 represented the Bureau. Smaller numbers were drawn from other executive agencies, congressional offices and agencies, and other types of organizations.

Half of the 45 major participants were experts in general noncash benefits or in the statistical definition of income.

Only 4 percent of the major participants (2 of the 45) were experts in poverty among minorities.

#### The diversity of views at the conference

The conference discussions may have underrepresented the views of some concerned groups. That is, the breadth of opinions expressed in conference discussions represents a lower bound on what may be the full diversity of views on the issues. Even so, the diversity of opinion on what benefits to include and how to value them seemed substantial. Although formal votes were not taken, it appeared that many specific suggestions raised at the conference were either disputed or not overtly supported.

#### SUMMARY

In general, conferences foster the exchange of ideas. They also serve as a forum in which individuals can gain a sense of the sentiments of others. And at times, they offer healthy confrontations of opinion. This is what conferences should be. The Bureau's conference was thoughtfully begun this way, but we believe the process is not finished because some important perspectives may have been insufficiently expressed or not expressed at all.

The conference was successful in expanding the breadth and depth of issue discussion on noncash benefits and the

measurement of income and poverty. In addition to covering the majority of the previously raised concerns about the Bureau's methods, conference participants voiced a number of new concerns. They also suggested a number of new solutions to measurement problems. Conference discussions revealed frequent reliance on some broad measurement principles.

Further, the conference provided a good deal of in-depth information on economists' views of issues identified by the Bureau and in the previous literature. The conference discussions seem also to have represented well the views of technical generalists and experts in the definition of income.

However, other groups at the conference were represented by fewer persons and were able to contribute less to the discussion. Opportunities for participants to prepare for specific discussion points were limited, and this was especially a problem for groups and individuals outside the mainstream of conference invitees. Thus, the full spectrum of concerns, solutions, and opinions may not have been fully represented.

Therefore, in our opinion, the conference did well to provide new contributions to the field and useful, if limited, input to the planning of future research directions. However, consensus was established in only a few, very general areas, and given the uncertain representativeness of some groups' participation, we believe input from the conference cannot,

taken alone, be sufficient to guide policy on what to include in income and how to measure poverty.

Mr. Chairman, this concludes my prepared remarks. I would be happy to answer any questions that you or others here today might have.