



INSTITUTE *for*  
RESEARCH *on*  
POVERTY

UNIVERSITY OF WISCONSIN-MADISON

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# Perspectives on Measuring Poverty in the US

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Teaching Poverty 101  
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# What is Poverty?

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- Defined: a state of economic or material hardship
- Poverty status is a social indicator—a ‘WHAT’
- The more difficult question is ‘WHY’ are people poor:
  - Individual factors:
    - People of working age have few skills, hence low pay
    - Is there a lack of personal responsibility or effort?
  - Structural factors:
    - Entry barriers related to race, ethnicity, incarceration and sexual preference
    - Economic recession
  - Cultural factors:
    - Norms and attitudes
  - Policy-related factors:
    - Are government support policies too stingy?

# Why poverty matters

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- Negative effects on individuals and self-efficacy
- Moral/ethic arguments—justice
- Economic and social costs:
  - Negative impact of child poverty on society's future (children as social investment)
  - Negative consequences for communities (e.g., crime, blight, low property values)
  - Costs to other social systems (e.g., income support, incarceration, child welfare)
- Others?

# So, why do we measure poverty?

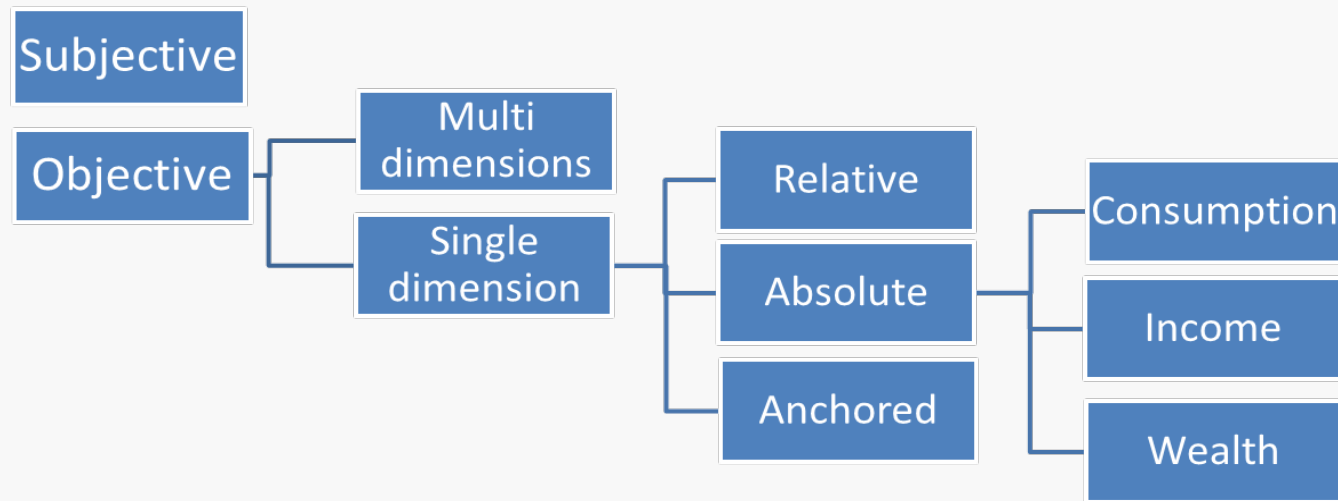
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Despite limitations, economic poverty measures are a powerful tool:

- **To highlight economic disadvantage and make comparisons** over time, across place and vulnerable groups (children, elderly, immigrants, minorities)
- **To help set eligibility and benefit standards for programs and public policies aimed at the disadvantaged**
- **To assess the effects of programs and policies to alleviate poverty and to increase economic well-being, and therefore to inform policymakers and the public about program anti-poverty effectiveness**

# Conceptualizing Poverty Measurement

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*“Poverty” is an inherently vague concept, and developing a poverty measure requires a number of relatively arbitrary assumptions---Blank, 2008*

Source: Adapted from Shatakshee Dhongde presentation, “Measuring Multidimensional Poverty in the U.S.”, March 20, 2013, Institute for Research on Poverty, UW-Madison.

# The Official Poverty Measure—A Little History

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- 1965, the War on Poverty, and Mollie Orshansky
- In 1963 *Social Security Bulletin*, she first described her income poverty concept and applied it to families with children.
- In 1965, also in the *Bulletin*, she presented a refined version of her measure and described the poverty thresholds.
- Four months later, the Office of Economic Opportunity adopted her measure as a quasi-official national definition of poverty.



# What is the Official Poverty Measure?

- A family is poor if their family income is less than the federal poverty threshold
  - Poverty lines vary by family size and are adjusted for changes in prices each year
  - Based on the cost of food in the 1960s (multiplied by 3)
- Poverty is a *family* concept—all persons in the same family have the same poverty status

Poverty Thresholds by Family Type, 2011	
1 parent, 1 child	\$15,504
1 parent, 2 children	\$18,123
2 parents, 2 children	\$22,811

By comparison, 2011 median family income was \$50,054.

# The Official Poverty Measure— Some Assumptions

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- Needs-adjusted annual household pre-tax income is a good proxy for *longer-term* well-being (or access to resources).
- **Markets work**, so that cash income can buy things; having little cash income makes people 'deprived'.
- Being poor means having cash income below a **needs standard** based on an arbitrary food consumption rule.
- Income needs differ by **family size** in a very particular way.

THE MEASURE IS CONTROVERSIAL!!!

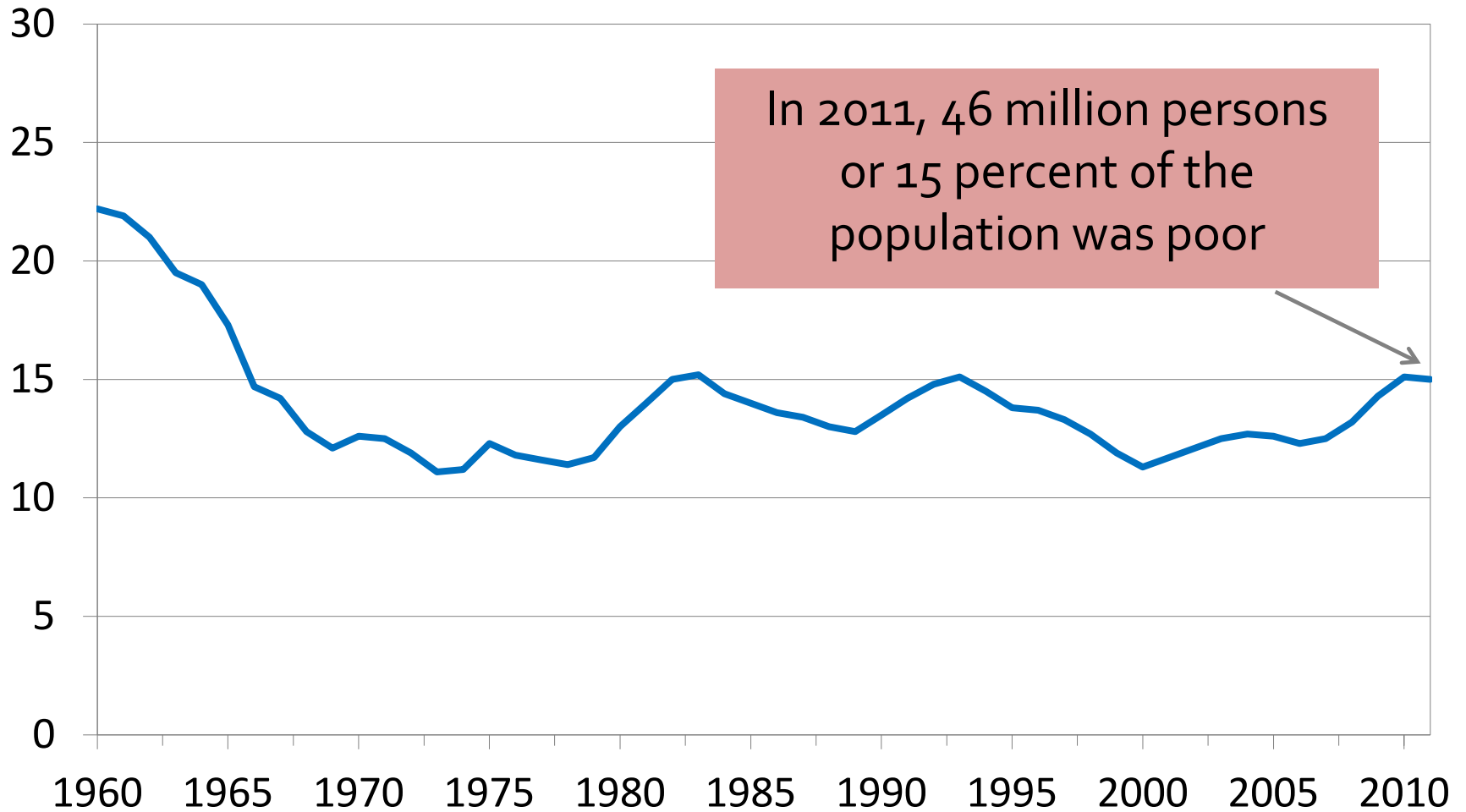


# Characteristics of the Official Measure

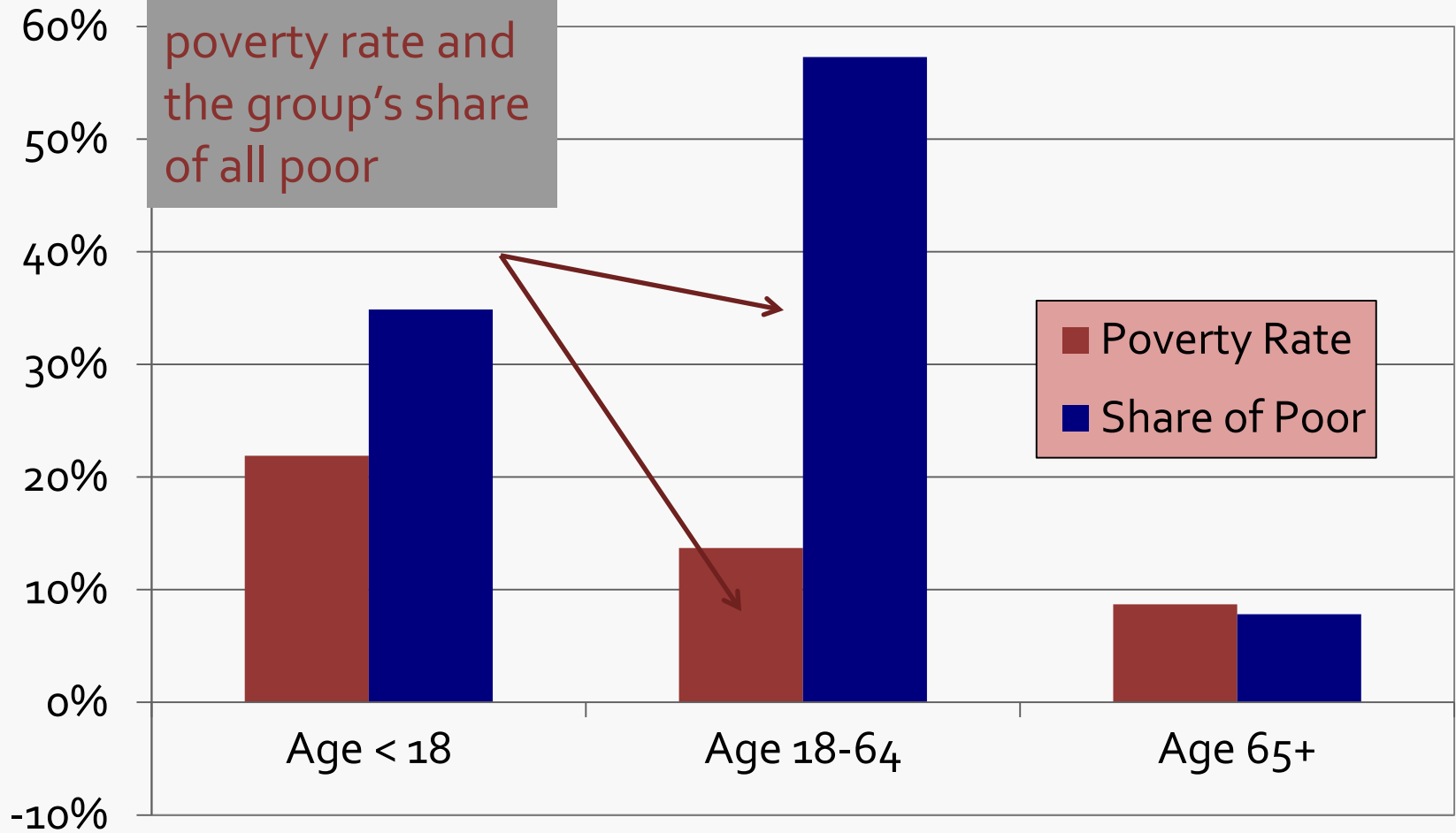
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- It is:
  - Objective
  - Single dimensioned (before-tax money income)
  - Absolute (adjusted annually for price changes)
  - Compares Income to Needs (adjusted for family size)
  - Old (created in 1960s using 1955 data)
  - Excludes many tax and noncash benefits used to fight poverty
  - Excludes cost of working
  - Same value everywhere in the country (NY City; Fort Smith, Arkansas; and Clanton, Mississippi)

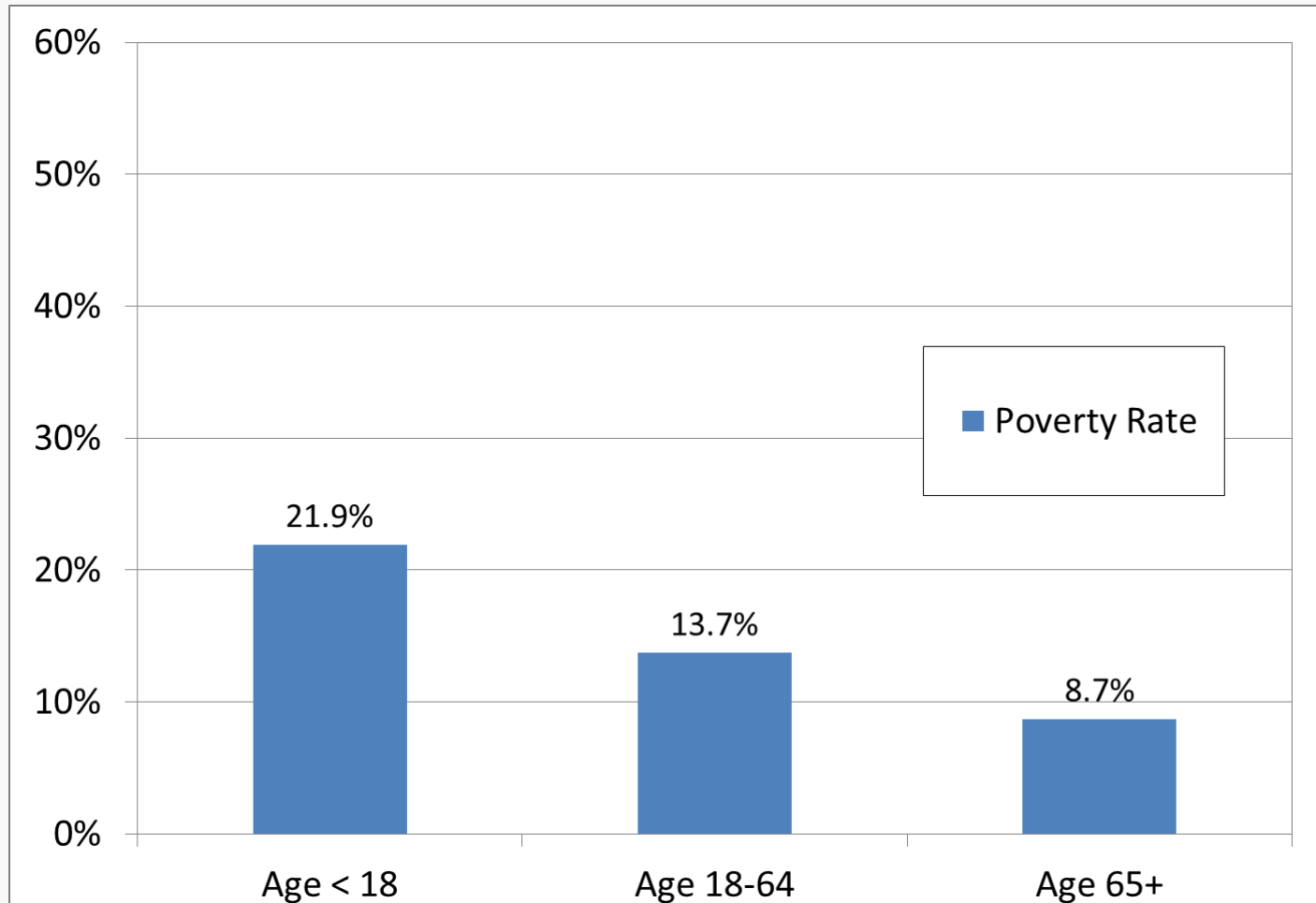
# Poverty Rate, All Persons



Note the differences between the poverty rate and the group's share of all poor



# Children have the highest poverty rates



# Concerns about the Official Measure

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- Is gross cash income an appropriate indicator of 'resources'? How about taxes? And food stamps, Medicaid, housing subsidies, and the EITC?
- Isn't income often temporarily low?
- How about those with plenty of resources who voluntarily have low income?
- Shouldn't other family circumstances—health status, assets, housing conditions—be considered?
- Shouldn't the threshold be updated regularly to reflect changes in overall living standards (and not only price levels)?

# A Variety of Research Approaches to Improving the Poverty Measure

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- **Efforts to develop a more comprehensive income measure, including in-kind transfers and taxes; the National Academy approach (more below)**  
Citro and Michael (1995)
- **Consumption rather than income; it is a more permanent indicator of 'well-being'**  
Slesnick (1993), Meyer and Sullivan (2006)
- **'Capability to Earn Income' better reflects permanent human and financial capital**  
Haveman and Bershadker (1995, 1997)
- **Asset poverty—For example, can the family live at poverty line from liquid assets for three months?**  
Haveman and Wolff (2005); Brandolini, Magri and Smeeding (2011)
- **Subjective poverty (van Praag)—Is income sufficient to meet peoples' view of the "minimum necessary" level?**  
Goedhart et al. (1977), Hagenaars (1986, 1988)
- **Time poverty**  
Burchardt, 2008 <http://www.jrf.org.uk/publications/time-and-income-poverty>

# How is poverty measurement changing in the US?

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- Poverty measurement video from Half in Ten, available at:

<http://www.youtube.com/watch?v=ChRKbTgZLyo>

# Shouldn't the Poverty Measure be a Relative Measure?

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- In the UK and the EU the basic income poverty measure is a relative measure.
- In Europe, the threshold is taken to be 60 percent of median equivalent income.
- Hence, the threshold moves up, or down as median income increases, or decreases over time.
- The United States also has a Supplemental Poverty Measure (SPM) that is semi-relative—moving with the consumption of necessities by lower income families

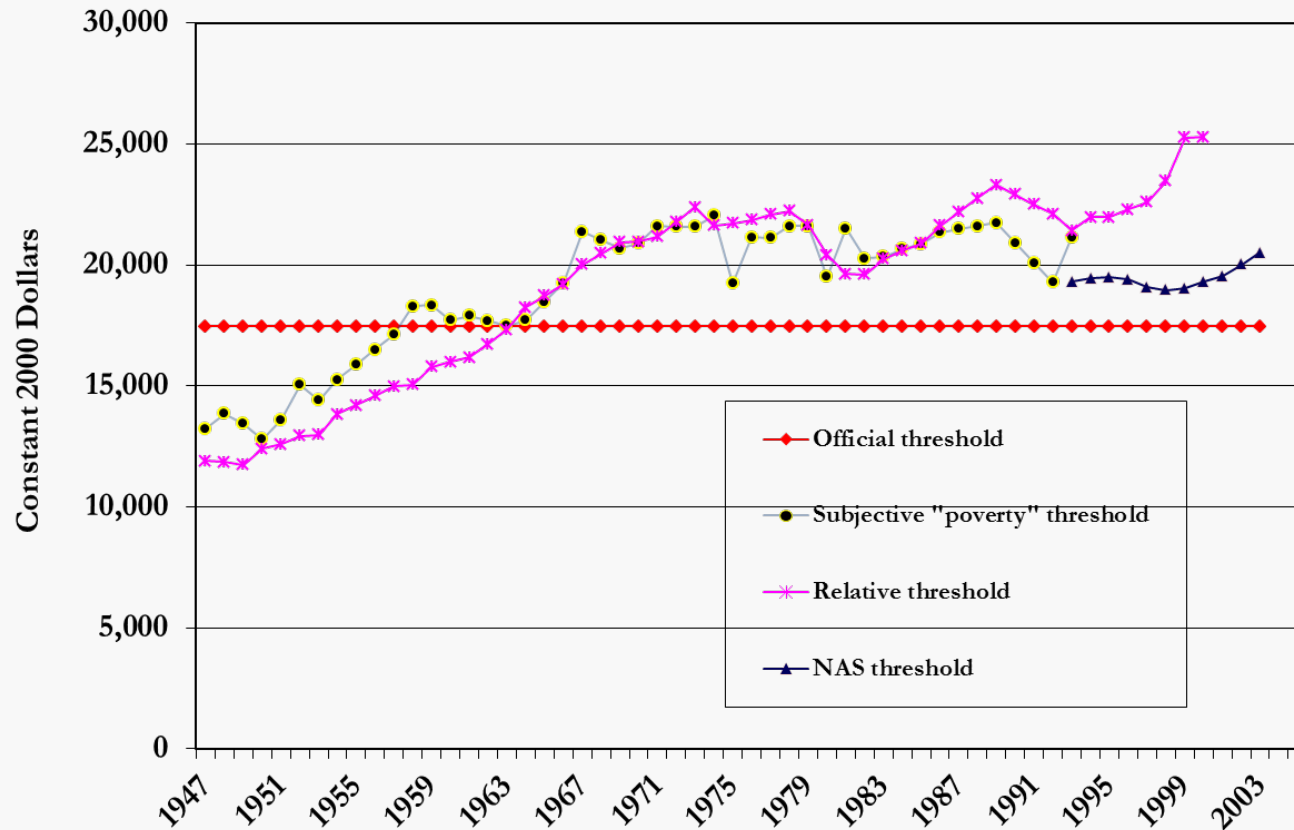


# The US Supplemental Poverty Measure

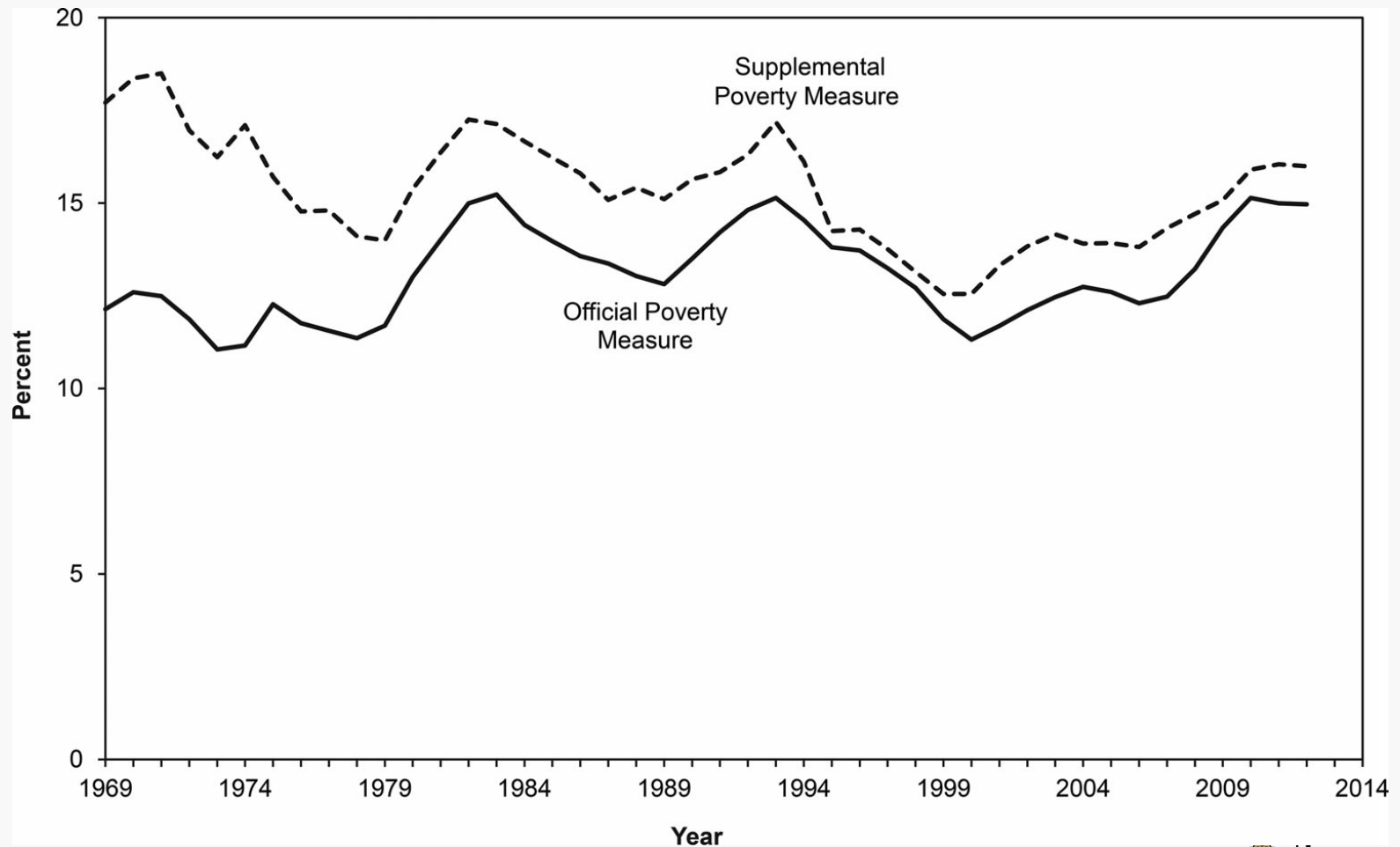
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- In addition to pretax cash income, which is the basis for the official measure, the SPM takes into account in-kind benefit programs and benefits conveyed through the tax system.
- The SPM also deducts work-related expenses and out-of-pocket health-care expenses from income.
- Because the SPM poverty thresholds are based on expenditures on food, housing, and clothing (rather than just food) and are adjusted over time as the composition of expenditures changes, the SPM is a quasi-relative poverty measure.
- Differences in housing costs between areas are accounted for, and an improved equivalence scale is used to determine the thresholds for different types of families.

# Poverty Thresholds for 4-person Families, 1947-2003



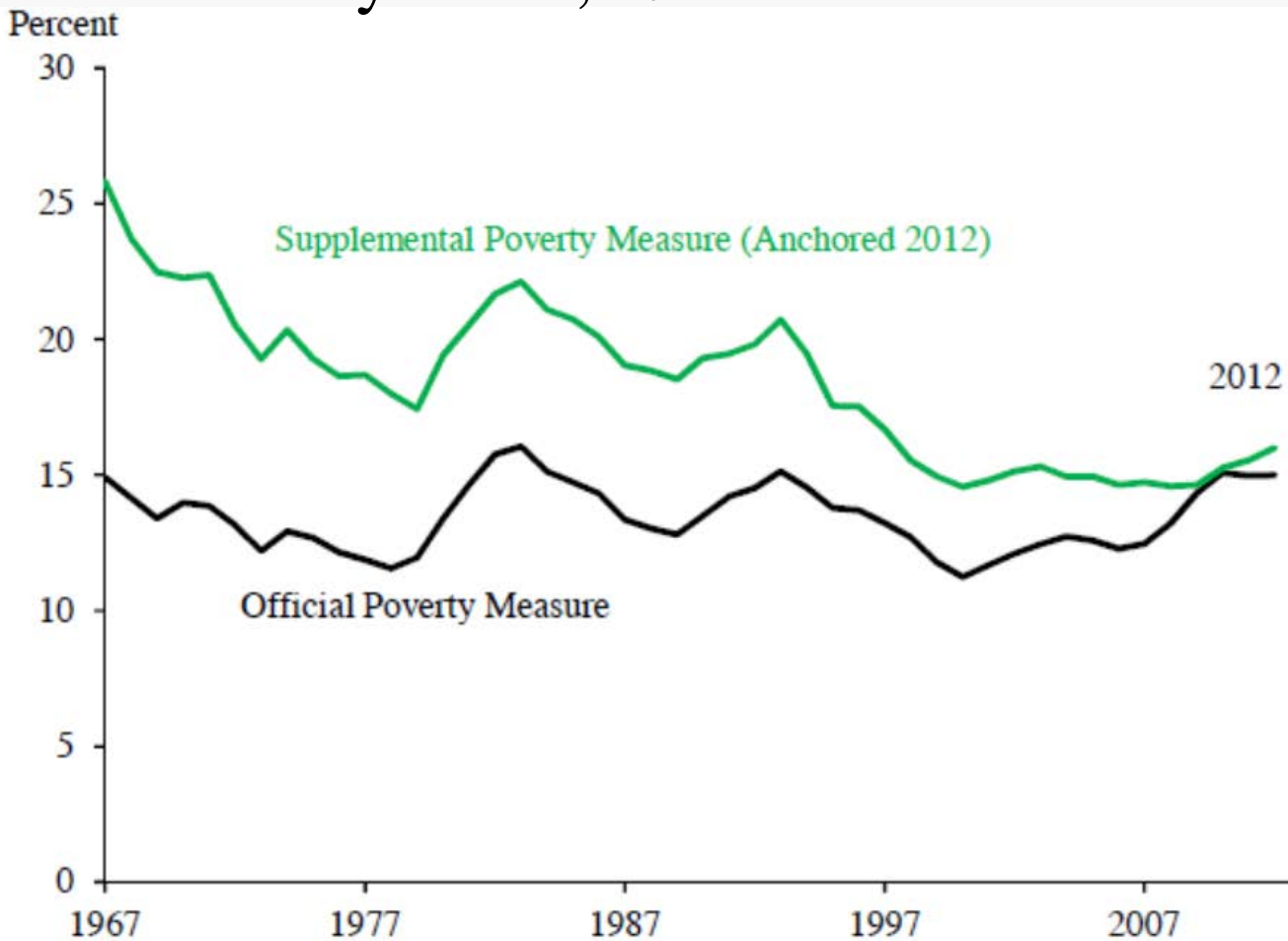
# Trend in the Two US Poverty Measures



# Official vs Anchored Supplemental Poverty Rates, 1967-2012

The SPM shows a 38% drop in poverty between 1967 and 2012.

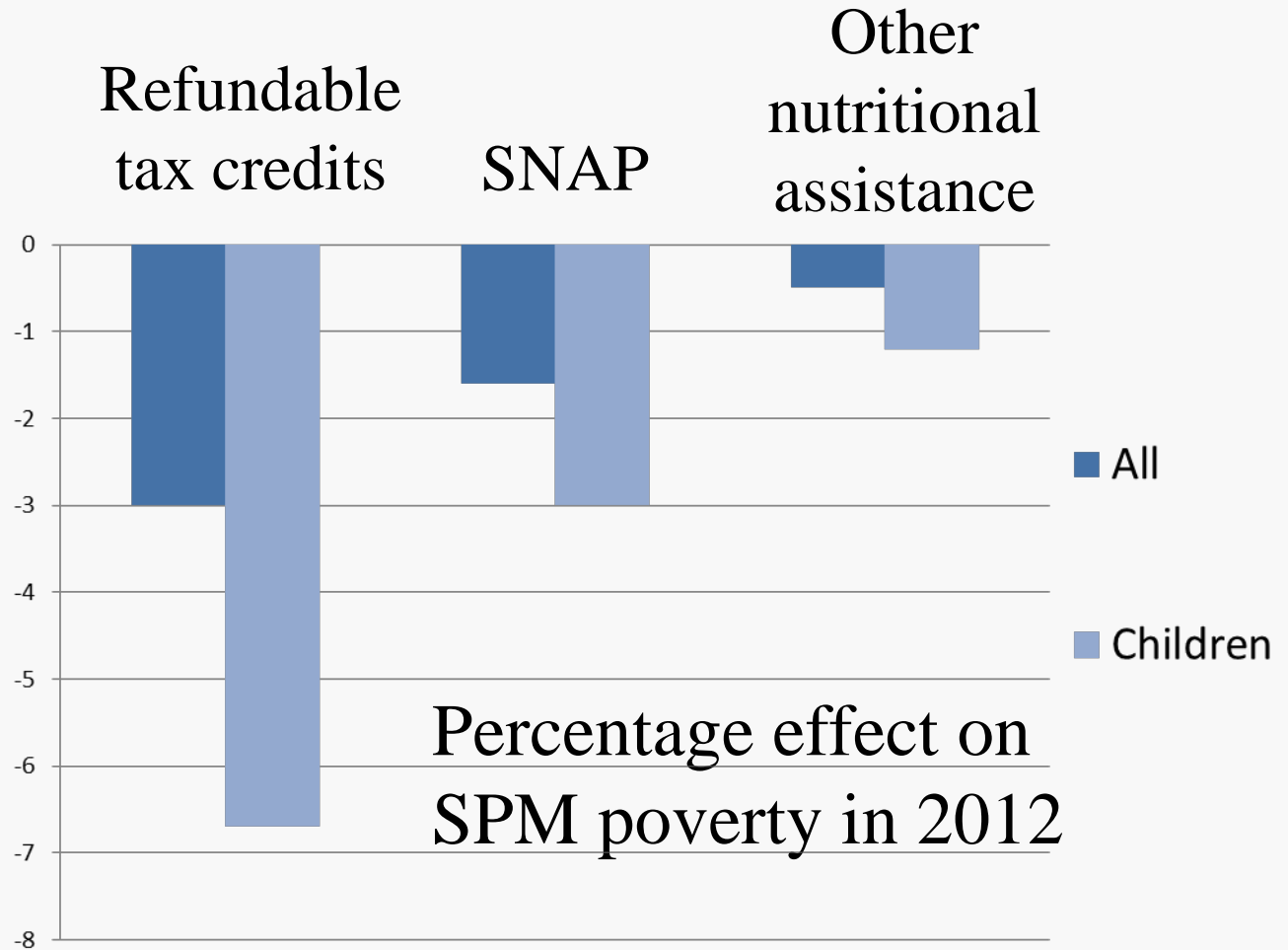
The OPM shows no consistent progress.



Source: Census Bureau; Wimer et al (2013).

# Why the Difference?

The OPM doesn't capture important anti-poverty policies.



Source: Author's computations from census bureau as reported in ERP 2014

# Some Correlates of Living in Poverty

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- Adults
- Children
- Elders
- Neighborhoods

# Why are Adults living in poverty?

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- Un- or Underemployed
- Low wages if working
- Reliant on public income support
- In poorer health (perhaps disabled?)
- Poorly served by public services
- Less involved in community and school organizations
- Discouraged and disheartened

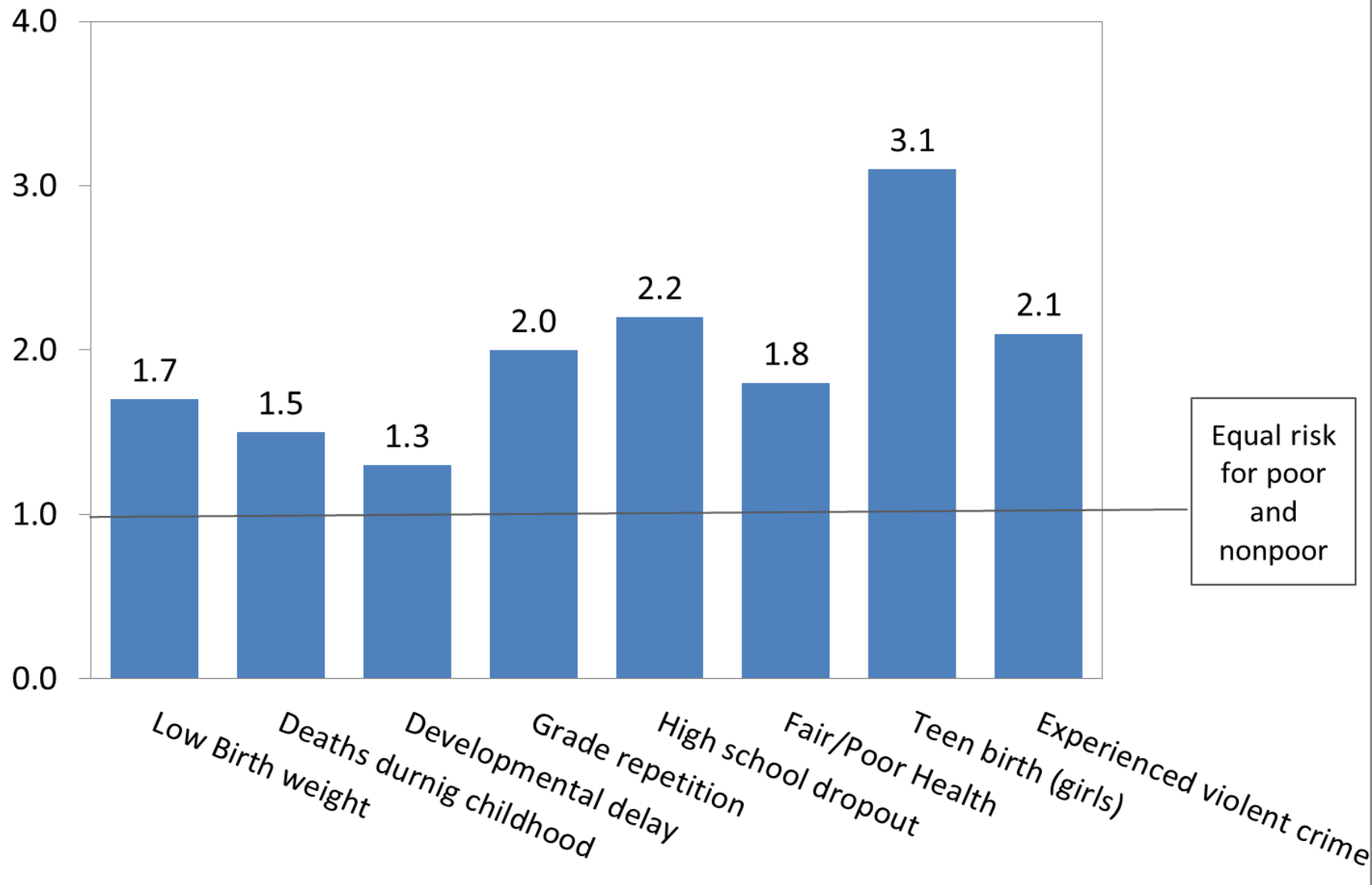
# Children who grow up poor are more likely to:

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- Not attend preschool
- Perform worse in school
- Drop out of high school, have lower educational attainment
- (Girls) Have a teen birth
- (Boys) Be incarcerated
- Live in poverty as adults
- Receive government assistance as adults
- Have connection to the child welfare system
- Have worse health and shorter life expectancy



# Risk of adverse outcome for poor / nonpoor children



Source: Greg Duncan and Katherine Magnuson "The Effects of Poverty on Children," The Future of Children, 1997.

# Elders who are poor are --

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- Older
- Likely single people living alone
- Exhausted assets
- Poorer health
- Incapable of doing all normal tasks of daily life without the help of others (family, friends, paid caretakers)
- At risk of institutionalization

# Neighborhoods with High Poverty Rates tend to be:

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- More dangerous
- Poorer schools
- More run down
- Poorer housing quality
- Fewer community services and amenities
- More discouraged people

# More from class

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- What have we missed?

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