



INSTITUTE *for*
RESEARCH *on*
POVERTY

UNIVERSITY OF WISCONSIN-MADISON

CONCEPTUALIZING POVERTY: More Complicated Than It Looks

Poverty 101

Tom Corbett
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Discussion Topics

- Background Information
 - A few preliminary observations
- The Income Approach to Poverty
 - Drawing a line
 - Considering resources
 - Other considerations
- Moving beyond income by tapping underlying factors associated with income poverty

“Poverty is an inherently vague concept and developing a poverty measure requires a number of relatively arbitrary assumptions.”

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Rebecca Blank, 2008

THE ORSHANSKY LINE

- Lowest cost basket of food
- 1950s study saying that low income folk spent one-third of their income on food.
- Multiplied basket of food cost by a factor of 3.

POVERTY AS A 'WICKED PROBLEM'

Confusion or contention about:

- Underlying concepts or definitions
- Causality
- Policy Ends
- Evidence
- Solutions

LACK OF CONSENSUS

On how to draw a poverty line.

On how to calculate resources.

On whether income is the correct metric in the first place

POVERTY: CORE ELEMENTS

- Draw a line
- Do a simple calculation:
- Income above the line = not poor
- Income below the line = poor
- Income equal to the line = your choice

IT IS NOT THAT EASY

It turns out that even coming up with an income-based definition of poverty depends on several things:

PURPOSE: How is the definition to be used?

PERSPECTIVE: World view and disciplinary focus.

POLITICS: Values and partisan leanings.

THE INCOME APPROACH: DRAWING THE LINE

- We have three basic approaches:

Absolute Line [expenditure based]

Relative Line [distributionally based]

(40 or 50 % of median figure)

Subjective Line [survey based]

NEXT STEP: CALCULATING RESOURCES

Earnings

Non-earned Income... Interest & Dividends

Income supports

- Direct like cash welfare
- Indirect, like the EITC
- Cash substitutes: SNAP, Housing Assistance, Energy Assistance, etc.

BASIC ACCOUNTING UNITS

Temporal, or the period of time over which poverty is calculated

- Month
- Year
- Multi-year periods
- Lifetime

For longer periods, how long does poverty spell last?

BASIC ACCOUNTING UNITS

Physical or Biological or Familial Units?

Individual

Biological and/or legal family members

Household unit, related or not.

Extended family, sharing HH or not

Units aggregated over community – *area poverty*

EQUIVALENCY SCALES

The line must be adjusted or scaled to account for the number of people sharing resources.

- The question is *how*? Two people do not spend 2x on housing compared to a single person.
- On food, two people may have modest economies of scale.
- Clothes?

UPDATING THE LINE OVER TIME

A line not updated over time will fall in the face of inflation.

Should inflation be calculated by...

Prices?

Earnings?

Wages?

Some key consumption item, e.g., housing?

Each rises at different rates.

THE QUESTION OF EXPENDITURES

- MORE RECENTLY, ANALYSTS ARE CONCERNED WITH SOME EXPENDITURES.
 - COL differentials such as housing costs.
 - Certain unpredictable/out of pocket expenses
 - Necessary work expenses
 - [Bob will talk more about this in his session, related to supplemental poverty measures]

ADJUSTED POVERTY LINES

Sometimes, we adjust our line for analytical purposes:

1.5x the line to measure the at-risk group.

1.25x the line to measure the near poor.

0.5x the line to measure the deep poor.

THE POVERTY GAP

- We often want to assess distance from the poverty line or **the poverty gap**
- Rates give numbers, the GAP gives distance
 - You measure the amount of dollars above or below the line for a unit.
 - You aggregate these amounts to get a better picture of how a population is doing relative to the established line.

PRE AND POST-TRANSFER POVERTY

For some questions you want to tap how people are doing using different measures of income.

Examples

- Pre-transfer income or the poverty estimate using ONLY what is earned in the market place.
- Post-transfer income gives you an idea how government programs are helping to reduce poverty.

COMPARISONS TO PROVIDE MEANING

Single poverty numbers are relatively meaningless.

Instead, compare across:

Groups ... demographic

Jurisdictions ... states or countries

Time ... since WOP, or last recession.

Against some **standard** ... Tony Blair's child poverty war.

WEALTH

Some have argued for a wealth metric.

- It is durable as opposed to transitory
- It can be drawn upon during periodic financial crises

MOVING BEYOND INCOME

Many feel that income is merely a symptom of deeper issues. Other possible approaches:

- Human capital
- Cultural deficits
- Contextual deficits
- Social exclusion
- Cohort specific measures
- Multi-factor measures

HUMAN CAPITAL APPROACHES

What someone brings to the labor market...

- Cognitive strengths or deficits
- Physical strengths or deficits
- Hard skills
- Soft skills

CULTURAL DEFICITS

Personal failings, motivational deficits, short-term attention span, lack of impulse control

Learned helplessness

Shared limitations

Intergenerational transmission of poor habits and attitudes.

CONTEXTUAL DEFICITS

Limited opportunities

Lack of mobility

Institutional failings

SOCIAL EXCLUSION

More popular in Europe, this concept focuses on whether individuals are included in mainstream institutions.

- Lack of social networks
- Lack of participation in groups.
- Exclusion and ostracization based on racism, sexism, ageism, and other exclusionary practices.

COHORT SPECIFIC CONCEPTS

Some now focus on particular age cohorts that are at risk. Some examples:

Prenatal to 3 years of age [toxic stress, etc.]

Disconnected youth [17-24] not in school or labor market

Foster kids ageing out

Teen mothers

MULTI-DIMENSIONAL POVERTY INDEXES [MPI]

The challenge here is to bring together multiple risk factors that give us a global view of the prospects for a given individual or family.

The measurement challenges are daunting as well as arriving at a consensus on the underlying attributes.

Just think how difficult it has been measuring income related poverty.

SOME MPI FACTORS

- Basic deprivation
- Consumption deprivation
- Health deprivation
- Educational deprivation
- Occupational prestige
- Capabilities deprivation