

Poverty: Measurement and Trends

Poverty

- ▶ How do we measure poverty? What does it mean?

Poverty

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- ▶ Some things we have to decide on first:
 - ▶ What is the measure of resources (income, consumption, wealth)
 - ▶ What is the “economic sharing unit” (typically a family or individual)
 - ▶ What is the time interval (typically annual)

Poverty

- ▶ Resources: Income most common
- ▶ Worth thinking about what consumption & wealth would add
 - ▶ Consumption – can be more reflective of long-term resources. Involves expenditures and time.
 - ▶ Net Worth (assets minus liab): stock measure (income is flow)

Poverty

- ▶ The Poverty Rate (“head count poverty”)
 - ▶ The poverty rate in year t is the percentage of the population with resources below a pre-determined threshold z :
 - ▶ (how to pick z . good question...)

$$P_t = \frac{1}{N} \sum_{i=1}^N \mathbb{1}(y_{it} < z_{it}) \quad (1)$$

Poverty

- ▶ Picking z : Absolute vs. Relative measure?
 - ▶ Absolute: (i.e. \$2/day and official poverty rate)
 - ▶ Relative: (i.e. 50% of median income – SPM)

Poverty

- ▶ Picking z : Adjustments - What should be considered?
 - ▶ Family size
 - ▶ Family composition? (gender, age)
 - ▶ Location? (cost-of-living)
 - ▶ Needs? (disability/aged/chronically ill, ect)?

Poverty

- ▶ History:
 - ▶ US adopted absolute poverty measure in the 1960s: the Orshansky Measure.
 - ▶ Took data from 1955 USDA survey to find cost of minimum adequate “food plan”. Found that HHs spend $\frac{1}{3}$ of income on food.
 - ▶ Poverty threshold set at 3 times cost of the “economy food plan”
 - ▶ Each year this threshold updated with CPI
 - ▶ Adjusts for family size.

Poverty

- ▶ Current Thresholds:
 - ▶ 1 person: \$13,300
 - ▶ 4 person (2 kids): \$25,926

Poverty

- ▶ How is income data collected? Annuals CPS ASEC supplement (90,000 person survey)
- ▶ What is included in income? private income (earnings, retirement, interest, ect), govt cash income (UI, SSDI, SSI, Soc Sec, TANF), family transfers
- ▶ All people in a family are assumed to share the their income total
- ▶ A family is “in poverty” if their cash income is below this federal poverty threshold.

Poverty

- ▶ Limitations:
 - ▶ Excludes in-kind or tax transfers (SNAP, EITC, Medicaid, Housing)
 - ▶ Doesn't incorporate expenses (childcare)
 - ▶ Food budgets have changed (now about 1/8th of spending)
 - ▶ Cost of living?
 - ▶ Arbitrary line?
 - ▶ Family concept – cohabitation?

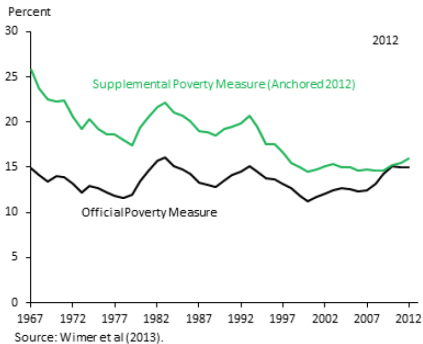
Poverty

- ▶ 2011: Census releases Supplemental Poverty Measure (SPM) (based on 1995 report – ha!)
- ▶ Changes:
 - ▶ post-tax and transfer measure (still annual)
 - ▶ Threshold is a “quasi-relative” measure: taken at 30-36% of the median of expenditure groups
 - ▶ Threshold accounts for spending on: food, clothing, shelter, and utilities.
 - ▶ Then multiplied by 1.2 (to catch “other” spending)
 - ▶ Varies by state (housing costs) and housing situation (renter/owner)
 - ▶ Accounts for expenses (OOP medical, childcare) and expands family definition (cohabitators)

Poverty

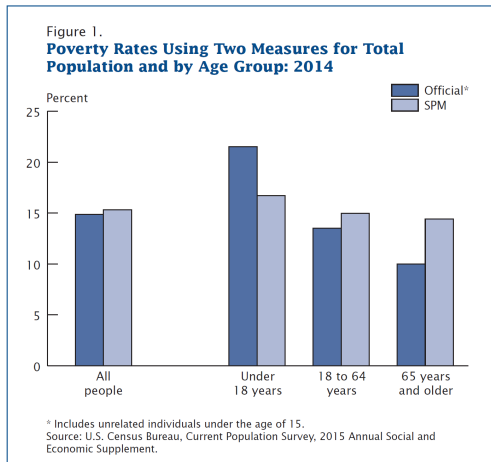
- ▶ OPM vs. SPM rates:

Figure 4
Official vs Anchored Supplemental Poverty Rates, 1967-2012



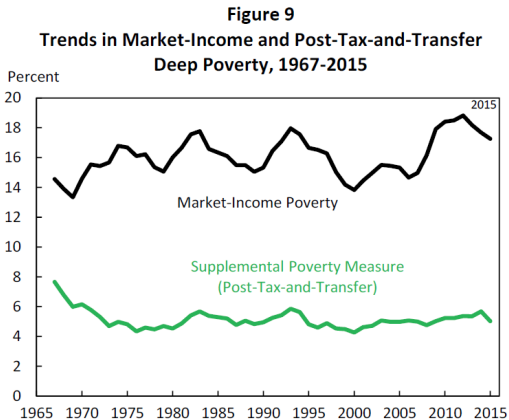
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► Poverty Rates by Age, OPM vs. SPM:



Poverty

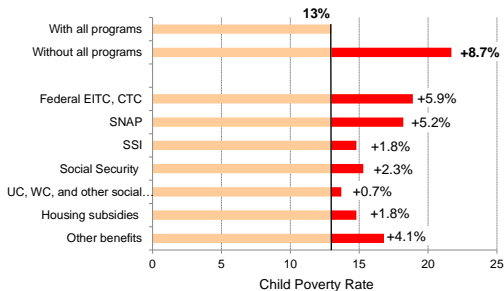
- ▶ Less improvement in “deep” poverty over time



Poverty

► Changes in Child Poverty by Program:

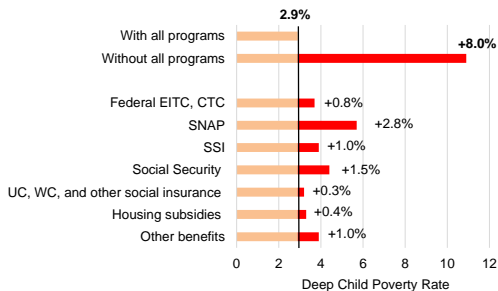
Child Poverty Rates Would Be Higher Without Existing Programs



Poverty

► Changes in Deep Child Poverty by Program:

Deep Child Poverty Rates Would Also Be Higher Without Existing Programs



Poverty

- ▶ Some Current Issues:
 - ▶ Concern about declining quality of survey data (non-response)
 - ▶ Underreporting of transfer income (rising)
 - ▶ Example: one estimate for the undercount raises the number lifted from poverty by SNAP from 5.0 million to 10.3 million.
 - ▶ Annual measure (not great for pandemic, short unemployment spells)
 - ▶ Ways to incorporate more admin data?