

What it Costs to Be Poor

By The J. McDonald Williams Institute

Introduction

Imagine having to choose between paying your electric bill or buying groceries for your family. For most of the middle class, this seems like an impossible choice. And yet, this is the choice many low-income households are required to make every month. Try to imagine having an income so stretched that moving your family every few months to take advantage of rental specials seems like a sound and necessary short-term financial strategy. Remember, each time you move, your child changes schools; each time she changes schools, she is forced to make new friends, become acclimated to new teachers, and ultimately pay a premium for her family's poverty in terms of educational progress. Furthermore, each of the new communities are equally unsafe, barren of modern playgrounds and secure parks, but replete with all of the ills that prompted the rental special in the first place. Once more, attempt to imagine reestablishing new public transportation routes each time you move, some trips taking as long as two hours, only to arrive just in time for your first minimum-wage job to begin, working all day, and hopping back on a bus only to arrive at your second minimum-wage job. This job also requires long hours, working you well into the night. In your absence, your children receive care from whomever you could find. They fall asleep, sometimes here, sometimes there, but always without their parents, without stability, and generally without prospects of either.

Remember, you have no health insurance, no sick days, no vacation time, and effectively no other options. You are ever-moving yet motionless, choosing between options without any real choice. Hopeless, and oftentimes helpless to change what has become an overwhelming reality, people living in poverty make seemingly impossible choices every day.

The cost of being poor extends beyond simple financial hardship. Poverty exacts social, psychological, and mental and physical health costs as well. Living in limbo, and plagued by uncertainty, individuals and families living in poverty confront obstacles that, in some instances, are difficult to quantify; in many of these instances the deleterious effects will not appear until later in life—manifesting in devastating consequences for children as they progress into adolescence and adulthood, caught up in a cycle of poverty.

Understanding the cost of poverty necessitates not only an appreciation of the individual personal experiences of those in poverty, in part illustrated by this exercise in empathetic imagination, but also by thinking more scientifically about how poverty is defined. The primary purpose of a poverty line is to distinguish between those individuals or families whose standard of living is minimal but adequate and those individuals or families whose standard of living is inadequate—so low as to constitute poverty. Moreover, within discussions of poverty “solutions,” it is imperative to discuss those who are traditionally left out of this discussion and solution altogether. This delineation between the “poor” with few or no options, and the “near-poor,” with arguable options, happens somewhere between the people below the federally defined poverty line, and those, though decidedly outside of codified

poverty, living their lives in real poverty nonetheless. Here, we attempt to address poverty or near-poverty at a local level and examine how policies and official measures have failed to address the circumstances of those living in and on the edge of poverty. We begin by analyzing how the poverty line is calculated and what this implies for those residing in the lower socioeconomic strata.

Demystifying the Poverty Line

The fallacy of the poverty line as a metric of financial hardship is not a new concept, nor is its inadequacy as a modern measuring stick for assessing need for social services and other forms of public assistance. In recent years, a considerable amount of publicity and resources have been dedicated to analyzing the shortcomings of official poverty measures as an indication of need. Despite almost widespread acknowledgement of the inadequacy of poverty thresholds and poverty lines, there have been few systematic efforts to alter the official measures of poverty in the United States.

How is the Poverty Line Calculated?

Many people are surprised to learn that the “poverty line” is an indistinct concept. In fact, the Census Bureau draws on a series of detailed poverty *thresholds* to determine whether an individual is, or is not, in poverty. Poverty rates and other poverty statistics are then calculated from Census tabulations of the individuals and families whose incomes fall below the poverty thresholds. In 2007, the poverty threshold for a single parent with two children was \$16,705, increasing to \$21,027 for two parents with two children, and \$21,100 for a single parent with three children.¹ The more well-known poverty *guidelines* published by the Department of Health and Human Services (DHHS) depict a simplified version of the Census thresholds to be utilized for administrative purposes. In 2007, the poverty guidelines were set at \$10,210 for the first person in a family and \$3,480 for each additional person, resulting in \$20,650 for a family of four, regardless of composition.² Regardless of efficacy, many public and private agencies use the federal poverty guidelines or a multiple thereof (e.g., 125%) to determine eligibility for subsidized programs and other social services.

Arguments for the arbitrary nature of those measures are overshadowed when pitted against the arguments raised within the conversation of their relevance. In fact, both sets of figures are based on a set of calculations and assumptions that have remained largely unchanged for more than fifty years.³ The poverty thresholds, and other derivative guidelines, were developed in 1964 by Mollie Orshansky, then an economist at the Social Security Administration.⁴ Orshansky used 1955 expenditure pattern data to determine that families of three or more people, on average, spent about one-third of their after-tax incomes on food (inside and outside of the home). She then used the 1962 U.S. Department of Agriculture’s Family Food Plans to determine the minimum annual cost of a nutritionally adequate diet for various family structures. Orshansky based her calculations on the “economy plan,” which according to the USDA was intended for “emergency use” and consisted of “foods that require a considerable amount of home preparation and call for skill in cooking to make varied and appetizing meals.”⁵ Working backwards from the observation that food comprised about 1/3 of the average family’s total expenditures, she multiplied the minimum food cost by three to approximate a minimally adequate

income in 1963 dollars.⁶ Yet the Food Plans were designed, in part, as an educational tool to teach families how through “careful food management [they] can have nutritionally adequate diets for less money than they now spend.” In practice, very low income families spent, on average, 29% more than the cost of the economy plan on food while in many cases achieving a less-than-nutritionally-adequate diet.⁷ Thus, the poverty thresholds developed from the economy food plan represented an income that was minimally adequate in theory, given impeccable food and money management education, skill, and time, but the actual income required to support a minimally adequate lifestyle in practice, given actual educational, skill, cultural, and time constraints, would have been significantly higher.

Shortcomings of Current Poverty Definition

More than forty years later, the same 1964 calculations based on 1955 expenditure patterns remain the basis for the poverty thresholds. However, the same 1963 dollar amounts have been adjusted each year for inflation using the Consumer Price Index (CPI).^a Neither changing patterns of consumer expenditures (e.g., the advent of significant child care and transportation expenses) nor differential inflation among major household budget items (e.g., the rising cost of housing and health care) have been taken into account. As a result, food now makes up only about 14-15% of expenditures for most families, as compared to 33% fifty years ago.^{b,8} Analysis of the USDA’s Thrifty Food Plan (the successor of the “economy plan” used by Orshansky) suggests that, for a single mother with two teenage children, the annual cost of the Thrifty Food Plan is \$5077.⁹ At 32.27% of the 2005 poverty threshold for a single parent of two, food costs comprise the same proportion of the hypothetical poor family’s budget as in 1955, yet this figure is more than double today’s typical food expenditure proportion. If the poverty threshold were set using a food-cost multiplier of 6.667 based on today’s typical expenditure pattern of 15% for food, the resulting poverty threshold would be \$33,852 for a family of three and \$43,976 for a family of 4 in 2005.¹⁰

While one can draw several different conclusions from this observation, the explanation of the discrepancy remains the same: lifestyles and standards of living have fundamentally changed during the past half century. There are good reasons to question whether or not a definition of poverty based on the lifestyle and economic conditions fifty years ago is still appropriate today. Research suggests that the official poverty threshold methodology is roughly compatible with society’s perceptions of an appropriate poverty threshold at the time that it was developed. Yet, the American public’s perception of the standard of living that constitutes poverty has changed over the past fifty years in response to changing overall standards of living and rising real median incomes.¹¹

^a Through 1969, the thresholds were updated using the yearly difference in the cost of the economy food plan, the updated cost being multiplied by 3. In 1969, the CPI was adopted to update the total poverty threshold dollar amounts for inflation. By 1980, the new CPI-U was adopted as the inflation adjustment factor, and in 1981 the thresholds were simplified by collapsing family-composition distinctions into fewer categories.

^b Among the highest-income quintile and single-person households, the food proportion of expenditures drops to 11%. Among the lowest-income quintile, the percentage of expenditures spent on food rises to approximately 16%; however, expenditures on average are nearly double the reported income for this group.

Using the CPI to maintain the poverty threshold fixed in real money terms is incongruent with the changing nature of social perceptions of the appropriate poverty threshold, and results in a very peculiar relationship with median income over time. If one were to project the official poverty threshold back into time prior to its conception, using the same method of CPI indexing that has been used to update the poverty threshold since its inception, in 1947 the poverty threshold would have equaled 73.9% of median after-tax income and been well above the social perception of an appropriate poverty threshold. In the 1960s, when the poverty threshold was devised and implemented, it was equal to approximately 50% of median income, and in line with social perceptions. By 1989, the official poverty threshold had fallen to 37.8% of median after-tax income, and was approximately 20% below what the average American considered to be an appropriate poverty line.¹² Although more recent research has not been conducted, a clear trend is exhibited in which the official poverty threshold is declining with respect to the median income and the social perception of an appropriate poverty threshold. When coupled with the significant technology and lifestyle changes that have taken place in the nearly two decades since 1989, the official poverty threshold has only fallen further below median income and the socially perceived poverty threshold in the intervening years.

Measuring the Cost of a Minimum but Adequate Standard of Living

Again, the primary purpose of a poverty line is to distinguish between those individuals or families whose standard of living is minimal but adequate and those individuals or families whose standard of living is inadequate. Therefore, attempting to quantify this distinction raises both conceptual and measurement problems. First, as previously mentioned, popular conceptions of what constitutes a “minimal but adequate” standard of living are inherently grounded in time and space, and will necessarily vary over time and across societies. Second, even within a given time and place, reasonable people will disagree about what constitutes “minimal but adequate.” Third, even when a consensus can be reached on a definition for “minimal but adequate,” measuring the money income required to support such a lifestyle is complex at best. For non-commoditized essentials such as housing, childcare, and other budget items, pricing a minimal standard of quality is quite difficult given the wide variation in price and quality in the marketplace, especially by geographic region.

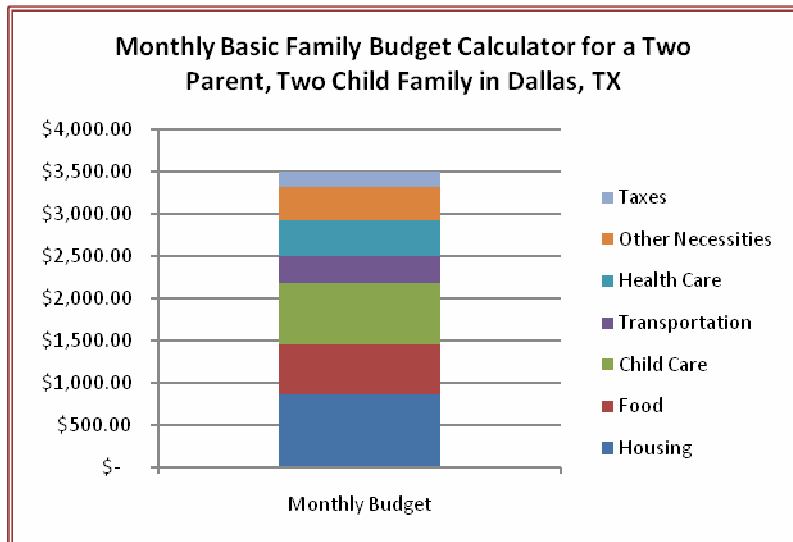
It is due to these methodological complications that Orshansky based her measure on the more easily definable and measurable food component of adequate wellbeing. However, Orshansky herself understood the limitations of her measure, saying “if it is not possible to state unequivocally ‘how much is enough,’ it should be possible to assert with confidence how much, on average, is too little.”¹³ Regardless of where one comes down on the question of what standard of living “ought” to constitute the poverty line, it seems clear that simply maintaining the poverty threshold indexed to the CPI has not created a consistent concept over time.

Alternative Basic Family Budget Calculations

With these shortcomings in mind, a number of research and policy institutes have developed innovative estimates that specify a minimal-but-adequate budget and yet also address basic needs in a changing economic environment. Not surprisingly, the basic budgets developed using alternative measures are

significantly higher than the standard estimates calculated from the Census Bureau, as well as those relied upon to determine eligibility for many social services. For example, one attempt to estimate a minimum basic needs budget at a national level that took into account all categories of expenditure, not just food, placed the number at \$34,108 for a single mother with 2 children, in year-2000 dollars.¹⁴ Taking into account geography, at the local level, the Economic Policy Institute (EPI) estimates that for a two-parent, two-child family residing in Dallas, a basic living budget would be \$3504 per month, or roughly \$42,000 annually (shown in Figure 1).

Figure 1. EPI Monthly Basic Budget Estimate for a Family of 4



Source: Economic Policy Institute. 2007. Basic Family Budget Calculator. Available at: http://www.epi.org/content.cfm/datazone_fambud_budget

The income presented in the EPI Family Budget Calculator is nearly 200% of the poverty threshold based on the Census calculation for the same family composition, and over 200% of the poverty *guidelines* established by the Department of Health and Human Services.^c In EPI's calculations, food constitutes 16.75% of the family's monthly budget. For our hypothetical family of four, that still only amounts to almost \$21 a day, or \$5.24 per person, or \$1.75 per person per meal. Though the model also takes into account the rising cost of housing, childcare, and transportation, even under this more expansive definition of poverty, a family of four would still have difficulty finding ways to meet any additional expenses.

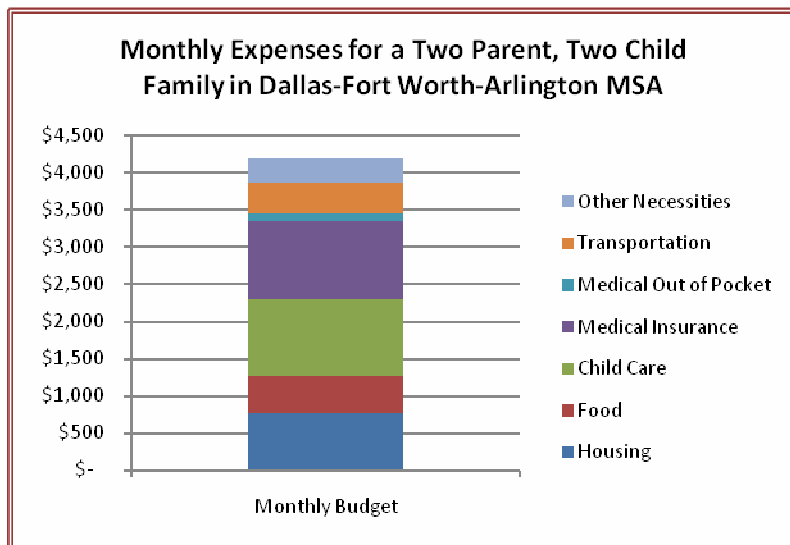
Perhaps most telling is that using this budget to determine the proportion of Texas' population living below the basic subsistence level indicates that 35% of individuals have incomes that do not even allow them to meet these basic needs.¹⁵ Obviously, this method for calculating a basic family budget is just that: basic. And while it includes the amount necessary to subsist, it does not allow families to save, to budget for emergency repairs to a vehicle or a home, to purchase renters' insurance, or even eat out at

^c The data used by the EPI are from 2004, which suggests that if current data were used the figures would be at least somewhat higher, especially considering rising transportation prices.

a restaurant occasionally.¹⁶ Thus, it is unlikely that families living within this budget will be able to move themselves out of poverty, much less withstand a major life event, such as a layoff or serious injury.

Other estimates of a basic family budget, such as those presented by the Center for Public Policy Priorities (CPPP), generate even higher figures for the Dallas area (see Figure 2).

Figure 2. CPPP Monthly Basic Budget Estimate for a Family of 4



Source: Center for Public Policy Priorities. Budget Estimator. http://www.cppp.org/fbe/ft_2.php

Note: Calculations are based on family paying full health premiums.

The Center for Public Policy Priorities finds monthly expenses for a family of four in the Dallas/Fort Worth/Arlington MSA to be substantially higher than the EPI estimate, at \$4198 per month, or just over \$50,000 annually. While this estimate applies to households whose employers do not pay health care premiums, for many low income working families this depicts a scenario that is closer to reality.¹⁷ The CPPP budget also assumes that this family of four does indeed acquire medical insurance, the single highest expenditure category. In reality, lower income families would be more likely to forgo medical insurance and deal with catastrophic medical emergencies as they occur, consequently raising medical out-of-pocket expenses in the estimated budget. The second highest expenditure category in the budget is child care, which has become a significantly larger proportion of family budgets. Once again, the category of child care is likely an expenditure for which many low income families are forced to accept lower quality, inconvenience, or instability simply to be able to afford it. Informal caregiver arrangements replace costly center-based care; for other families who cannot enter into such arrangements, children care for themselves or are cared for by an older sibling. In the CPP model, housing constitutes only the third highest expenditure category, accounting for 18.6% of the monthly budget. However, between 1997 and 2005, the number of working families paying more than half of their income to housing costs (renters and owners) increased 87%, which means that many cost-burdened families spend far more on housing than allowed by the minimum basic budget, leaving even less to devote to the other categories.¹⁸

Families living at or below the official poverty line, as evidenced by the budgets discussed here, must eliminate multiple expenditure categories in order to meet more “pressing” or immediate expense categories. That is, they must choose between quality child care and paying their rent, or between having health insurance and buying groceries regularly. Although distinct, all three calculations suggest that the minimum standard of living currently used does not capture the breadth of expenditures faced by families in the 21st century. These figures also suggest that a new category of the poor, the near-poor, are facing many of the same challenges and dilemmas as those who fall below the official poverty threshold.

The Poor

Who Falls Below Poverty?

While we collect data on poverty populations, many times we do not accurately capture those who fall in and out of poverty over the course of a year. If we examine trended data, we find that over a ten year period, up to 40% of the population experiences poverty at some point.¹⁹ With this in mind, the national poverty rate stands at roughly 13%. However, the poverty rate among children and certain racial/ethnic groups is significantly higher.

Nationally, the poverty rate among blacks is 2.7 times higher than for non-Hispanic whites (25.3% vs. 9.3%). Similarly, the poverty rate for Hispanics is markedly higher than for non-Hispanic whites and only slightly lower than for blacks at 21.5%. These racial disparities are mirrored in child poverty trends. Notwithstanding concerns about poverty among the elderly population, poverty is considerably more prevalent among youth. Among children under the age of 18, 18.3% live in poverty. In contrast, just less than 10% of seniors fall below the poverty line.

At the local level, within the four-county area, Dallas and Denton Counties have the highest overall poverty rates. However, the overall poverty rate in Denton County (8.6%) is significantly lower than the national rate (13.3%), while the rate in Dallas County (16.5%) is higher than the national figure; even higher still is the poverty rate for the city of Dallas (22.1%), which is 1.6 times the national figure.

Children, especially, fare poorly in the city of Dallas and Dallas County. The poverty rate for children under age 18 in Dallas County is 24.5%, with an even more alarming rate of 34.1% in the city of Dallas. This translates into 163,379 children in poverty in Dallas County, with 108,864 of these children residing in the city itself. Both of these are significantly higher than the national rate of 18.3%. In contrast, the poverty rates for children in Collin County (5.8%) and Rockwall County (2.1%) are less than a third of the national figure.

Though not as dramatic as the disparity between children’s poverty rates, minorities also suffer higher rates of poverty in Dallas when compared to the surrounding counties. Blacks and Hispanics comprise a large percentage of all people in poverty in Dallas County, with blacks making up 27.11% and Hispanics making up 54.10% of all people in poverty.

Table 1. Characterizing the Population in Poverty

	United States	City of Dallas	Dallas County	Collin County	Rockwall County	Denton County
Population for whom poverty status is determined	291,531,091	1,172,145	2,310,685	694,350	67,916	572,108
Population in poverty	38,757,253	259,235	382,161	42,927	2,365	49,143
Poverty rate (% in poverty)	13.30%	22.10%	16.50%	6.20%	3.50%	8.60%
Children (<18) in poverty	13,285,569	108,864	162,379	11,026	412	14,484
As % of all people in poverty	34.28%	41.99%	42.49%	25.69%	17.42%	29.47%
Poverty rate among children	18.30%	34.10%	24.50%	5.80%	2.10%	9.40%
Blacks in poverty	8,968,940	79,017	103,605	8,561	**	6,727
As % of all people in poverty	23.14%	30.48%	27.11%	19.94%	**	13.69%
Poverty rate among blacks	25.30%	28.20%	21.90%	17.10%	**	17.20%
Non-Hispanic whites in poverty	17,890,083	26,186	54,341	17,639	**	23,962
As % of all people in poverty	46.16%	10.10%	14.22%	41.09%	**	48.76%
Poverty rate among NH whites	9.30%	7.60%	6.50%	3.80%	**	6.10%
Hispanics in poverty	9,293,416	147,153	206,733	11,028	**	14,161
As % of all people in poverty	23.98%	56.76%	54.10%	25.69%	**	28.82%
Poverty rate among Hispanics	21.50%	29.00%	23.60%	11.90%	**	15.30%
HS Dropouts in poverty	7,068,744	65,392	91,164	5,886	398	5,842
Poverty rate among HS dropouts	23.70%	30.00%	24.90%	14.60%	13.90%	16.90%
HS Grads in poverty	6,641,518	31,592	47,198	5,786	632	7,385
Poverty rate among HS grads	11.50%	19.20%	13.40%	8.20%	5.40%	10.10%
Some college in poverty	4,035,084	17,965	27,139	5,329	505	5,855
Poverty rate among some college	7.80%	11.40%	7.90%	4.30%	3.60%	5.20%
College Grads in poverty	1,942,694	8,620	15,247	5,586	154	4,760
Poverty rate among college grads	3.70%	4.30%	4.00%	2.60%	1.00%	3.40%

Source: American Communities Survey, 2006.

Notes: ** indicates that data were not reported for specified category.

As would be expected, higher levels of education reduce the risk of poverty. As education increases, the likelihood of living in poverty decreases incrementally, such that high school dropouts have a poverty

rate that is 6.4 times higher than that of college graduates. Table 1 shows the poverty rates for specific subpopulations; the poverty rate among high school dropouts in the city of Dallas is 30%. Although the county-level data portrays lower overall rates, it still signifies a strong correlation between lack of education and risk of poverty. The poverty rate is highest in Dallas County, followed by Denton County (16.90%), and then Collin County (14.60%). Poverty rates among high school dropouts are lowest in Rockwall County (13.90%). However, these percentages drop dramatically when considering the poverty rate of those who complete high school or its equivalency. Within the city of Dallas, the proportion of high school graduates in poverty drops to 19.20%. Dallas County rates decline dramatically to 13.40% (nearly cutting the rate in half when compared to high school dropouts).

It is also imperative to see the connections between poverty and the life trajectories of those living in it. When measuring the social, psychological, and other challenges associated with poverty, social scientists suggest that youth whose families are living in poverty have an increased likelihood of leaving school for work in an effort to ease the pains of poverty on themselves and their families. Thus, a cycle of poverty continues, wherein those who are born into poverty are less likely to complete their educations—further deepening their poverty status and passing it along to their children.

The Near-Poor & the Working Poor

The 1990s welfare reform movement embarked on the task of encouraging work among the nation's lower classes, forgetting that the majority of the lower class were already working. Indeed, the working poor and near poor constitute the crux of our economy. However, they are concentrated in low-wage, temporary, or part time working arrangements, which are the first to disappear when hard economic times hit. Nevertheless, while we can estimate, with some degree of certainty, at least the number of households living at or below the poverty threshold, ascertaining the vulnerability to poverty among the working and near-poor has proven inherently more challenging. Most attempts to assess the proportion of households that are near-poor, now termed the "missing class" by some researchers, place their incomes between 100% and 200% of the poverty line, or roughly \$20,000 to \$40,000 annually for a family of four.²⁰ While over 38 million Americans live in poverty, over 52 million Americans subsist just above the poverty line in the missing class.²¹ As Table 2 demonstrates, the proportion of individuals living on the edge of poverty is significantly higher than those living in poverty, and while this may sound like good news, this group is likely our future poverty population.

On the brink of poverty, many times near-poor households subsist without health care, without job security, or without any form of government assistance. Unprotected, yet residing in the lower socioeconomic strata, the near-poor and working poor lack adequate income and job security, and are primarily concentrated in low-wage employment sectors that offer few benefits. When benefits are offered, the price of those benefits is high enough to make them cost prohibitive for many households. As a result, the near-poor are less likely than any other group to receive critical health services.²² They cannot afford to pay out of pocket for medical services, and yet they frequently do not qualify for the various health subsidies available.

Although the near-poor work hard, and generally are able to live in safer communities, unmarred by

Table 2. Number and Percent of Population by Income Ranges: Poor, Near-Poor, & Non-Poor

	United States	Collin Co.	Dallas Co.	Rockwall Co.	Denton Co.
	Number (% of Pop)	Number (% of pop)	Number (% of pop)	Number (% of pop)	Number (% of pop)
Total Population	291,531,091 (100%)	694,350 (100%)	2,310,685 (100%)	67,916 (100%)	572,108 (100%)
Under 50% of Poverty	16,752,909 (5.7%)	19,287 (2.8%)	144,279 (6.2%)	1,484 (2.2%)	22,835 (4.0%)
50% to 99% of Poverty	22,004,344 (7.5%)	23,640 (3.4%)	237,882 (10.3%)	881 (1.3%)	26,308 (4.6%)
100% to 125% of Poverty	12,618,371 (4.3%)	17,587 (2.5%)	136,586 (5.9%)	3,259 (4.8%)	17,145 (3.0%)
125% to 149% of Poverty	13,268,584 (4.6%)	18,313 (2.6%)	152,788 (6.6%)	1,718 (2.5%)	16,768 (2.9%)
150% to 175% of Poverty	12,945,800 (4.4%)	20,765 (3.0%)	113,062 (4.9%)	3,207 (4.7%)	17,194 (3.0%)
175% to 199% of Poverty	13,501,191 (4.6%)	13,856 (2.0%)	135,879 (5.9%)	1,585 (2.3%)	18,223 (3.2%)
200% to 299% of Poverty	49,923,844 (17.1%)	89,767 (12.9%)	401,203 (17.4%)	11,212 (16.5%)	82,741 (14.5%)
300% to 399% of Poverty	41,723,427 (14.3%)	90,282 (13.0%)	292,319 (12.7%)	10,069 (14.8%)	80,111 (14.0%)
400% to 499% of Poverty	31,825,242 (10.9%)	86,152 (12.4%)	190,066 (8.2%)	9,152 (13.5%)	72,860 (12.7%)
500% of Poverty and over	76,967,379 (26.4%)	314,701 (45.3%)	506,621 (21.9%)	25,349 (37.3%)	217,923 (38.1%)

Source: American Communities Survey 2006

concentrated poverty, their neighborhoods are more likely to experience gentrification, pushing them out of affordable housing situations. Still, the missing class values self-sufficiency; they work hard and yet still require assistance for health care, housing, and finding quality, affordable child care options.

What is the impact of living paycheck to paycheck on household expenditures? What do individuals in poverty or near-poverty go without? How do they adjust their spending patterns to compensate for cash shortages? In beginning to answer these questions, we rely on data from a pilot household survey conducted in South Dallas by the Williams Institute Center for Urban Economics at the University of Texas at Dallas. Although the survey data represent only preliminary results, they allow us to examine budgets and expenditure patterns of real families and households, as opposed to estimating what families need to subsist.

The two families depicted here are both defined as poverty households. Although their family size is the same, their household composition is radically different. The Carter family has a young child, and the primary householder is in her 30s. In contrast, the Jones family is headed by a 51-year-old woman who cares for an elderly family member and has lived in South Dallas for 50 years. While the total monthly expenditures are different, both households spend a similar amount on rent. Interestingly, neither family reports spending anything on communications (phone service) or entertainment. Both families are fortunate insofar as their utility payments are included in their rent; the inclusion of utilities in rental

payments implies less susceptibility to rising energy costs and seasonal changes in the consumption of electricity and gas.

Spending and the Poor

The Carter family is a three-person household; one of the adults is currently working and the other is looking for work. There is one child under the age of 11 living in the household. They report an annual household income between \$10,000 and \$20,000.

Monthly expenditures:

Rental payments: \$624
Utilities: Included in rent
Groceries/Food: \$ 284
Medicine: \$50
Clothing: \$100
Communications/Entertainment: n/a
Church: n/a
Other Charitable: n/a
Childcare: \$50
Child Support: \$144
Payments to Family: n/a

Total Monthly: \$1252

Annual: \$15,024

The Jones family is a three-person family as well. One family member works in a temporary job, and the two others are not employed. There are no children living in the household, but there is one elderly household member. They report an annual household income of less than \$10,000.

Monthly expenditures:

Rental payments: \$600
Utilities: Included in rent
Groceries/Food: \$100
Medicine: n/a
Clothing: \$20
Communications/Entertainment: n/a
Church: \$10
Other Charitable: \$10
Childcare: n/a
Child Support: n/a
Payments to Family: \$15

Total Monthly: \$755

Annual: \$9060

Having a young child in the household requires the Carters to find childcare. The reported expenditure for childcare is much lower than most families would expect to pay because the family has arranged for informal childcare. The childcare is divided between an adult living in the household who is not the child's guardian, a grandparent, and a friend.

As would be expected given the lower income, the Jones family indicates more difficulty in meeting its needs. In fact, this family reports not seeking necessary medical attention because of an inability to pay for medical services; Ms. Jones has no health insurance. In contrast, the Carters report spending \$50 per month on medications. However, the adults living in the Carter household also do not have medical insurance, so we can assume that if pressing medical issues come up they will need to spend significantly more on medical care—or, like the Joneses, forgo the medical care they require. Because of their higher income, the Carter family is able to spend substantially more on groceries, over twice as much per month; the Jones family reports having cut the size of family meals in the past six months to save money. Even after acknowledging limiting grocery expenditures, the Joneses spend a proportionate amount of their monthly expenditures on food according to recent estimates—approximately 13%. On the other hand, the Carters spend well over 30% of their monthly budget on food—which may reflect the cost of food in the area. While the cost associated with rental payments or mortgages is fixed, as are other expenditure categories, food appears to be one of the only ways in which a family can control its monthly expenses. Food budgets get cut when times are tight, as the result of other unanticipated or more pressing expenses.

The cost of being poor is markedly higher than the cost of being middle class. That is, it is not only that low-income families spend a higher proportion of their income on specific expenditure categories; rather, the cost of many items is higher for the poor. Consider a recent study of grocery stores in the Dallas area, which finds that the median income in neighborhoods with no mainline grocery stores is \$20,000 less than neighborhoods with three or more mainline grocery stores.²³ Moreover, in Dallas, neighborhoods with no mainline grocery access are significantly more likely to have a higher proportion of African American residents. Thus, many low-income, predominantly minority neighborhoods lack mainline grocery stores; these big box stores provide lower prices and a wider variety of products, including reasonably priced produce, personal care items, and other items with highly variable costs. The reality of limited grocery store access translates into: higher prices for food and non-food items; items that are normally sold in bulk being parceled out for individual sale at exorbitantly high prices; restricted product choices; the absence of fresh produce and healthy food options; the addition of sales tax to non-taxable items; and, in some cases, even unlisted prices for which product costs are determined by the employee on hand.

For many the notion of limited access to grocery stores or the prevalence of price gouging in low-income, minority neighborhoods is a hard fact to comprehend; but walk into a “local market” in South Dallas or another distressed urban neighborhood and ask to buy a single diaper. In that moment, it will become abundantly clear that the poor are subjected to different market conditions. Or, imagine trying to do all of your grocery shopping at a convenience store. Most of the middle class is willing to pay for the convenience of picking up one or two items at a local store at a higher price, but would never think of doing all of their grocery shopping in such a store. But some households, for whom a convenience store in a high-crime-rate neighborhood is the only viable option within walking distance, rely solely on these neighborhood stores for all of their shopping needs. Essentially, many low-income people pay extra for the inconvenience of shopping in unsafe areas, for limited product choice, and for unhealthier food.

Reconceptualizing Poverty: Policy Implications

The first and perhaps most important step to addressing poverty is to generate an adequate definition of what constitutes poverty. The definition of poverty determines how strategies to combat poverty are designed, who they apply to, and how they are implemented. Below, we present existing alternative ways to generate an acceptable definition of poverty. For too long we have clung to a definition of poverty that leaves too many struggling households out of the national discussion and unable to get the assistance they so desperately need. In addition, the income limits that determine eligibility for many public benefits penalize families for having money in the bank or a vehicle, such that any attempts to leave the ranks of the poor are often futile; upward mobility becomes a trap, as households lose the very benefits that allowed them to save or purchase a vehicle.

Relative vs. Absolute Deprivation

Although the fact that the official poverty threshold would have risen in comparison to median incomes if it were retroactively projected back in time lends credence to the idea that the very concept of a

poverty line is unavoidably grounded in the perceptions and consumption expectations of time and place, some groups are concerned about the implications of a relative poverty threshold. Rector and Johnson of the Heritage Foundation point to the fact that approximately three-quarters of families currently below the poverty threshold enjoy air conditioning in their homes and own a car, a microwave, and a VCR or DVD player, while 30 to 50 years ago few Americans of any economic stature owned these items once considered luxuries; their viewpoint suggests that the ownership of “luxury” items challenges the notion of poverty status.²⁴

Conversely, Vaughan points to the same fact that consumer options change over time and “because such consumption expectations exist, a consistent inability to meet them that arises from financial constraints is likely to take a heavy toll on individuals who see themselves as family providers.”²⁵ In other words, our notion of what constitutes an acceptable standard of living today is inclusive of many items that people would have considered luxuries only thirty years ago. Air conditioning is one of the foremost examples of this changing notion of what is minimally necessary. In climates where temperatures reach almost intolerable highs during the summer, few would argue that air conditioning is a luxury item. News reports of the number of elderly who die each year as a result of the summer heat should dispel this notion. Similarly, in communities where there is no public transit available, having a vehicle is a necessary precursor to holding steady employment.

Absolute measures of poverty, in which basic needs remain fixed over time regardless of changing norms regarding the standard of living, do not necessarily afford enough flexibility to account for a rapidly changing society.²⁶ Although we can set arbitrary standards for what we deem to be an acceptable standard of living, they will inevitably vary over time and by geography with changes in technology and general style of living.

Beyond a Uni-dimensional View of Poverty

Much of the research on poverty has followed official measures of poverty by employing a uni-dimensional view of poverty status. If an individual or household has an unacceptable standard of living, measured as an income level that is below an arbitrary income figure deemed acceptable, they are impoverished. What this does not take into account is reasonable access to transportation, education, job opportunities, and the like, which may not be captured by income figures alone. That is, if you live in a neighborhood with affordable housing options, convenient public transportation, viable employment opportunities, retail access, and quality schools, you may need less money to meet a minimum but adequate standard of living; everything you need is within your community. In contrast, if these amenities or neighborhood characteristics are not abundant in your community, the price of access is higher. Working outside of your own community carries with it transportation costs, which in recent years have increased considerably. Employing a multiple indicator system to assess poverty status, although clearly more complex than the single-income figure we employ now, has the potential to address access issues and provide a more holistic view of what constitutes poverty.

50% of Median Income

Some reform advocates have pointed to 50% of median income as an acceptable poverty threshold. In fact, Vaughan’s research on Americans’ perceptions (as measured by a series of Gallup polls) of what the poverty threshold “ought to be” have roughly corresponded to 50% of median income (a popular alternative poverty line) over the past fifty years.²⁷ The Organization for Economic Co-operation and Development (OECD), responsible for setting guidelines for poverty populations in the European Union countries, adopts the 50% of median income strategy to assess poverty and qualification for social programs. As a result, many European countries place their poverty lines anywhere from 40% to 60% of the median income.

As a relative measure of poverty, 50% of median income could be an alternative if applied to large geographies or MSA’s. However, a concern with using this method as a primary definition of poverty is the inevitable “trap” that will be set for all those who will forever earn less and therefore will forever be considered as living in poverty, whether fact or fiction, regardless of other variables. In other words, the poor would remain a nearly fixed proportion of the population; unless income distribution shifted significantly, the poverty population would not drop even with growth in the average level of real income.²⁸

Expenditure-Based Poverty Line

Expenditure-based poverty lines rely on consumption patterns as opposed to income. In fact, the World Bank advocates consumption patterns as a more realistic indicator of overall wellbeing, insofar as income alone does not take into account access to goods and services, which are an important component of meeting basic needs.²⁹ To ensure that households do not spend a disproportionate amount of their income on one category of living expenses, expenditure-based poverty lines require us to take into account significant regional variations in need and cost that may explain spending patterns. One approach is to engage in family budget surveys that in turn are used to specify a minimum family budget required for a specific geography. Proponents of this approach point to the fact that this connects the poverty line to actual costs, so as market conditions change or ideology about standards of living shift, the poverty line adapts.

Initial attempts at creating an experimental poverty threshold based on spending patterns, such as the one developed by the National Academy of Sciences, considered a bundle of basic needs as they relate to a family’s available resources (including subsidies, repayments, and assistance program benefits). The main categories of expenditure included food, shelter, utility payments, and clothing, in addition to other non-discretionary expenses such as income tax, social security payments, health insurance, child care costs, employment expenses, and out-of-pocket medical expenses.³⁰ While this method yields a higher poverty threshold—leading to a 10% higher poverty rate for working families—for non-working families, the poverty rate remains largely unchanged.

Linking poverty thresholds to a bundle of services or expenses, similar to a market basket of items, takes into account the changing American landscape and cost categories that have become necessities. A

more expanded market basket approach considers the detailed cost of each expenditure category, such as telephone service, personal care items, and cleaning supplies, as well as standard categories like housing, work-related expenses, medical care, child care, etc.³¹ What is unique about some market basket estimates is that they calculate, per household size, the actual number of each item required to meet a basic standard of living, taking into account items like toilet paper, laundry detergent, reading and writing materials, and dental checkups, as well as more traditional expenses like transportation (calculated in terms of public transit cost or gallons of gasoline).³² Each basket category includes a number of items deemed necessities, although it also allows for flexibility in spending; some baskets, such as the National Council on Welfare's estimates, include a sizeable "other" category, equal to 60% of the calculated food and clothing, assuming that all households will have additional expenses that cannot be anticipated.³³

Conclusion

Poverty is an ongoing battle faced by many households throughout the nation; there are many ways in, but few ways out. While welfare reform efforts continue to promote self-sufficiency and employment as the way to get out of poverty, without marketable skills and education it is unlikely that the employment options available will lift households out of poverty. In part, this is because many of the poor and near-poor already work in low-wage jobs, waiting to survive the next shattering event that may topple them into official poverty.

Measuring poverty and setting a poverty line represents a fundamental challenge that is inherently problematic. This invariably requires a consideration of factors outside of income. Creating a poverty threshold that truly captures those who lack the resources necessary to meet the needs of their families requires consideration of a host of complex variables, many of which are difficult to measure. Geography, tax payments, supplemental income from social programs, access issues, and other variables affect the ability of families to hold on to an adequate standard of living. Notwithstanding the significant issues inherent in specifying a minimum but adequate standard of living, other alternatives exist that take into account the cost of living and buying goods in certain markets. Indeed, many of these guidelines would move the near-poor, or the missing class, into the official poverty population, thus increasing the proportion of the population officially defined as poor. What is clear is that millions of families every year scrape by on meager incomes, merely surviving. With incomes that do not allow for emergencies or unplanned events, the hope of saving enough money to create their own safety net or build a better future for their children is distant.

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