

## Poverty

- Poverty – income below that needed for 9  
*"leave constant of living"*
- Poverty line – a number...
  - Mollie Orshansky, 1963, Soc Sec Adm
  - Based on "healthy diet" (Assumptions!)
- Poverty rate (%)
- Supplemental Poverty Measure (SPM)
  - longer to take census and such more resources as the legal definition of poverty constantly have changed in 60 years.*

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## How the Census Bureau Measures Poverty

The U.S. Census Bureau releases two poverty measures every year that describe who is poor in the United States. The first is the nation's official poverty measure based on cash resources. The second is the Supplemental Poverty Measure (SPM) that includes both cash resources and noncash benefits from government programs aimed at low-income families and subtracts taxes and necessary expenses.



The official poverty measure has remained mostly unchanged since the mid-1960s, whereas the SPM was designed to keep pace with changes in data, methods, and new research.

### The Official Poverty Measure

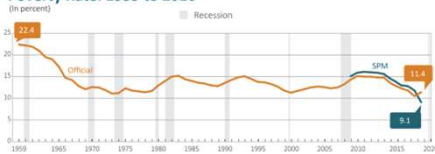


The United States has an official measure of poverty. The current official poverty measure was developed in the early 1960s when President Lyndon Johnson declared war on poverty. This method does not reflect key government policies enacted since then to help low-income individuals meet their needs.

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### Poverty Rate: 1959 to 2020



### The Supplemental Poverty Measure



The SPM extends the official poverty measure by taking into account government benefits and necessary expenses, like taxes, that are not in the official measure. This second estimate of poverty has been released annually by the Census Bureau since 2011.

For both measures, individuals are considered in poverty if the resources they share with others in the household are not enough to meet basic needs.



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## How the Two Measures Compare



Official Measure



Supplemental Measure

### Who shares resources?

The two measures make different assumptions about who shares resources. The SPM assumes that more people in a household share resources with one another.

The official measure of poverty assumes that all individuals residing together who are related by birth, marriage, or adoption share income.



The SPM starts with the official family definition and then adds any coresident unrelated children, foster children, and unmarried partners and their relatives.



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### How do we measure needs?

The poverty threshold, or poverty line, is the minimum level of resources that are adequate to meet basic needs.

The official measure is three times the cost of a minimum food diet from 1963 (in today's prices).



The SPM uses information about what people spend today for basic needs—food, clothing, shelter, utilities, and telecommunications.



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### Are needs the same in every state?

Poverty thresholds for both measures are adjusted to reflect the needs of families of different types and sizes. Only the SPM thresholds take into account geographic differences in housing costs.

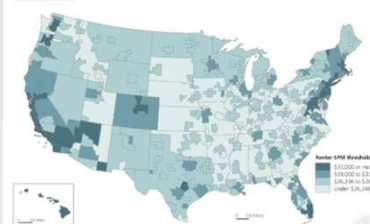
Yes, the official poverty threshold is the same throughout the United States.

Official Poverty Thresholds: 2020  
(Two Adults and Two Children)



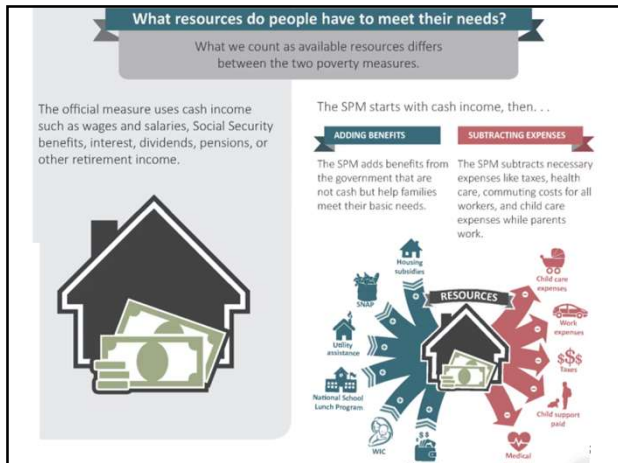
No, SPM thresholds vary based on several factors such as place of residence and whether it is a rental unit or purchased property or home with a mortgage.

SPM Poverty Thresholds for Renters: 2020  
(Two Adults and Two Children)



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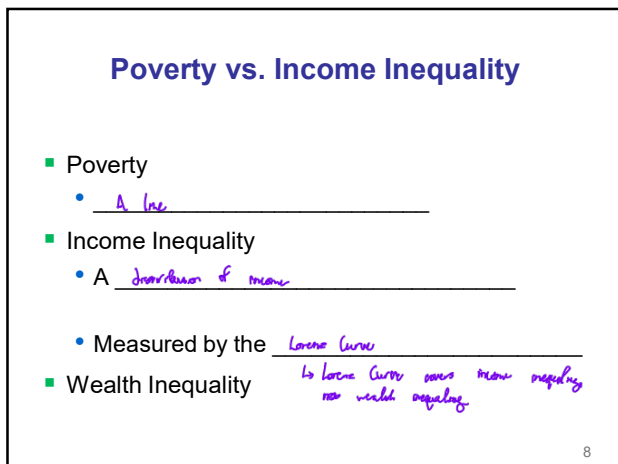
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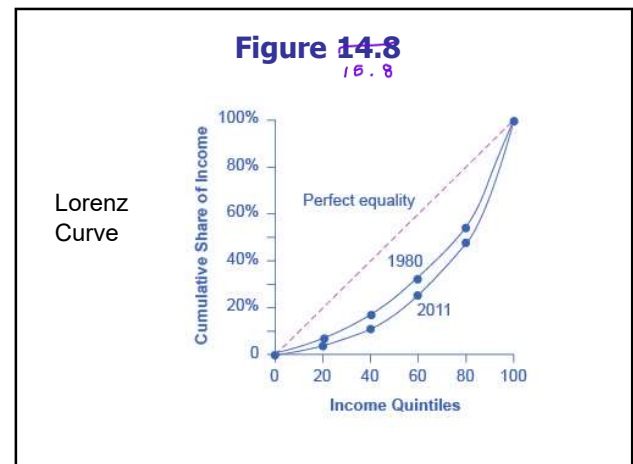
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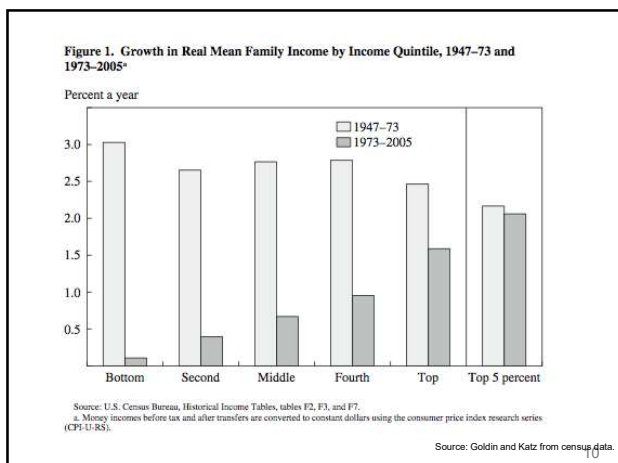
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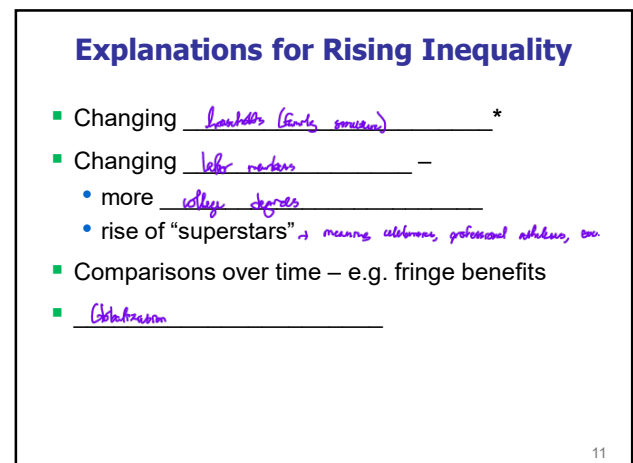
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## Policies

- Redistribution through tax policies
  - Progressive tax system
- Minimum wage laws
- Assistance to the poor (e.g...)
  - TANF
  - SNAP
  - In-kind transfers
- EITC - Earned income tax credit (a subsidy for an individual through the tax system).

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## Poverty Trap

- Poverty trap
  - Benefits
  - Incentives

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## Global Poverty

- World Bank (worldwide)
  - \$1.90/day per person (\$1.25)
  - \$2.15/day per person
  - Contrast to the U.S. poverty >\$17/day

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## Information, Risk and Insurance

- Perfect competition
  - Assume perfect information
- Imperfect Information – Buyer, seller or both are uncertain of qualities of what is bought/sold
- Which markets...?

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## Reducing the Risk of Imperfect Information - examples

- Labels (for product quality)
- Reviews: check references; trial employment
- Sellers can offer: money-back guarantee; warranty; service contract
- Bank loan: credit check; cosigner; collateral

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## Information, Risk and Insurance

- Asymmetric Information – situation where either buyer or seller has more information than the other, about what is being exchanged
  - “I know something you don't know...”  
e.g. worker, house, car, food
  - Different access to relevant information

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## Asymmetric Info and Insurance

- Buyers of insurance have more information than those providing the insurance.
- Adverse Selection:
  - People with higher risks than "average" seek out the insurance to cover the risk.
    - "People know..."

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## Moral Hazard

- **Moral-hazard problem**
  - Taking on risk, while believing you won't have to bear the burden of the consequences (cost) of the risk outcome
    - "I have insurance..."

*i.e. People engage in riskier behavior than they would if they didn't have the insurance.*

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## "Policy" Implications

- Insurance Industry policy can reduce adverse selection and/or moral hazard:
  - Home owner's insurance
    - Fire extinguishers, smoke detectors
  - Auto insurance
    - Driving record
    - Deductible
  - Medical insurance
    - Deductible
    - Copayment or Coinsurance

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*2 years later  
under insurance  
was already  
public's risk*

## The Government & Social Insurance

- Unemployment Insurance
- Disaster Insurance
- Workers' Compensation insurance
- Affordable Care Act (2010) (Health insurance)

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## Moral Hazard

- Mortgage/banking/finance industry
  - NINJA mortgages
  - "Too Big to Fail"

*No money, no job or assets*

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