Poverty

- Poverty – income below that needed for _____
  _____
- Poverty line – a _____…
  - _____ Orshansky, 1963, Soc Sec Adm
  - Based on "_____" *(Assumptions!)*
- Poverty _____ (%)
- Supplemental Poverty Measure (SPM)

0

0

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.
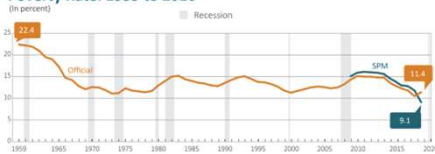
The Official Poverty Measure

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.

1

1

Poverty Rate: 1959 to 2020
(In percent)

Note: The data points are placed at the midpoints of the respective years. The data for 2013 and beyond reflect the implementation of the redesigned income questions. The data for 2017 and beyond reflect the implementation of an updated processing system.
Source: U.S. Census Bureau, Current Population Survey, 1960 to 2021 Annual Social and Economic Supplements.

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.

2

2

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.

3

3

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.

1963 | x 3

Today

4

4

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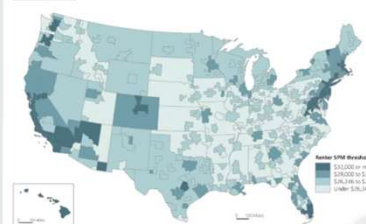
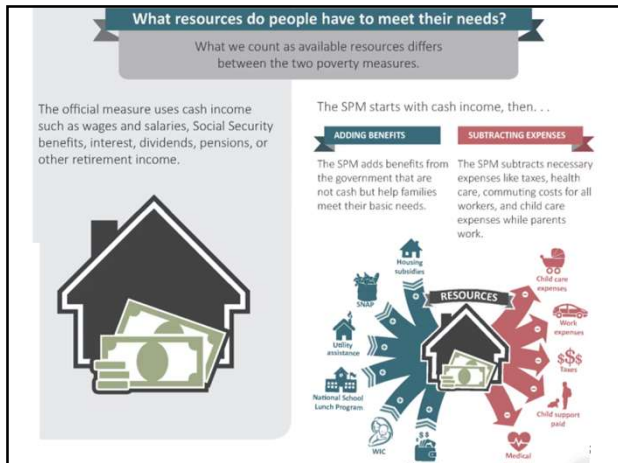**Yes**, the official poverty threshold is the same throughout the United States.

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.

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

$26,246

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

Source: U.S. Census Bureau, 2021 Current Population Report, P60-273.

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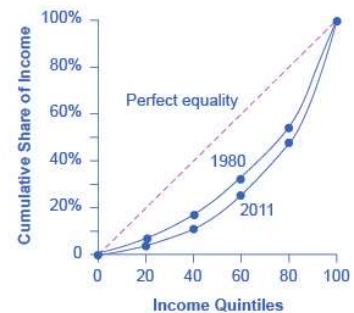## Poverty vs. Income Inequality

- Poverty
  - _____
- Income Inequality
  - A _____
  - Measured by the _____
- Wealth Inequality

8

8
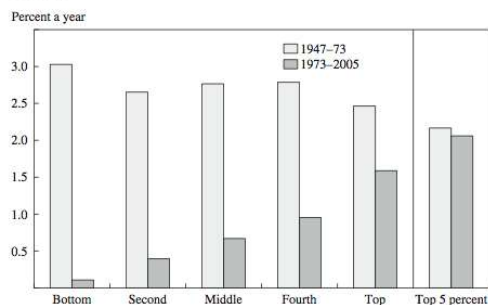
Figure 14.8

Lorenz Curve

9

Figure 1. Growth in Real Mean Family Income by Income Quintile, 1947–73 and 1973–2005

Source: Goldin and Katz from census data.

10

10

Explanations for Rising Inequality

- Changing _____*
- Changing _____ –
  - more _____
  - rise of "superstars"
- Comparisons over time – e.g. fringe benefits
- _____

11

11

Policies

- Redistribution through _____
  - _____ tax system
- Minimum wage laws
- Assistance to the poor (e.g...)
  - _____
    - SNAP
    - In-kind transfers
- _____

12

12

Poverty Trap

- Poverty trap
  - _____

  - _____

clq
13

13

Global Poverty

- World Bank
  - $1.90/day per person ($1.25)

  - _____per person

  - Contrast to the U.S. poverty _____

14

14

Information, Risk and Insurance

- Perfect competition
  - Assume perfect information

- _____ – Buyer, seller or both are uncertain of qualities of what is bought/sold

- *Which markets…?*

15

15

Reducing the Risk of
Imperfect Information - examples

- _____
- _____ : check references; trial employment
- Sellers can offer: _____; warranty; service contract
- Bank loan: credit check; cosigner; _____

16

16

Information, Risk and Insurance

- _____ – 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 _____

17

17

3

Asymmetric Info and Insurance

- Buyers of insurance have more information than those providing the insurance.

- _____ :
  - People with _____than "average" seek out the insurance to cover the risk.
    - "People know…"

18

18

Moral Hazard

- **Moral-hazard problem**
  - Taking on _____, while believing you won't have to _____ 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.

clq
19

19

"Policy" Implications

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

20

20

The Government & Social Insurance

- Unemployment Insurance

- _____

- Workers' Compensation insurance

- Affordable Care Act (2010) (Health insurance)

21

21

Moral Hazard

- Mortgage/banking/finance industry
  - NINJA mortgages
  - "_____"

22

22

4