

COMMENT BY

DIANE SCHANZENBACH It is important to obtain accurate, reliable measures of poverty, to answer questions such as how many people are poor, how poverty rates vary across various population groups, and how poverty rates have changed over time. Measuring poverty is deeply challenging, though, because of a host of thorny conceptual and measurement issues. The picture of poverty can vary dramatically depending on how resources are counted, how the threshold of what it means to be poor is defined, and how these concepts are adjusted over time. Fitzgerald and Moffitt do an admirable job making the case for an expenditure-based poverty measure that builds on the framework of the supplemental poverty measure (SPM), which they distinguish from their approach by referring to it as the supplemental income poverty measure (SIPM).

To understand the context of Fitzgerald and Moffitt's approach, it is necessary to briefly review approaches to income-based poverty measures. The official poverty measure (OPM) was developed in the mid-1960s and compares a household's annual cash resources to a poverty threshold that varies by family size. As students of poverty history may recall, the poverty thresholds were originally developed by Mollie Orshansky from the Social Security Administration, who based her threshold on the price of a minimum-cost food diet, multiplied by three to account for other family expenses (Fisher 1992). That original threshold has been adjusted for inflation since then. There are many well-understood drawbacks to the OPM: it ignores taxes and in-kind benefits such as Supplemental Nutrition Assistance Program (SNAP) payments, it considers all money to be available to count against the poverty threshold, and it sets the same poverty threshold in every state despite widely varying costs of living.

Seeking to improve on these limitations, the SPM, which has been released annually by the US Census Bureau since 2011, takes several different approaches to defining both income and needs. The SPM poverty threshold is anchored to US families' spending on a bundle of food, clothing, shelter, and utilities and adjusted over time using a moving average across years. There is some geographic variation built in as well, with poverty thresholds varying by place of residence and homeowner or rental status. The SPM includes government in-kind benefits like food support programs and housing assistance, accounts for taxes (which can be negative for low-income families), and excludes income that can't be used to purchase the minimum bundle of goods, including work and childcare expenses, as well as out-of-pocket medical expenses. To be sure, while the SPM is an improvement over the OPM, it is nonetheless imperfect. An expert consensus panel

convened by the National Academies of Sciences, Engineering, and Medicine is expected to issue a report in the coming months to recommend improvements to the measure.¹

Many economists are interested in consumption-based measures of poverty. To the extent that flows of consumption and income diverge, consumption may indeed be preferable to the extent that by tracking poverty we are concerned about the share of families experiencing unmet need for food, housing, medical care, or other necessities. Fitzgerald and Moffitt do a great service to the profession by constructing a consumption measure that is directly comparable to the SPM annually produced by the US Census Bureau. Like the SPM, Fitzgerald and Moffitt's SEPM accounts for taxes and in-kind benefits, excludes certain purchases related to medical care, work expenses, and childcare, and compares income to a poverty threshold anchored to spending on core goods that varies by geography and homeowner or renter status.

The overarching takeaway from their work is that poverty measured by the SEPM is quite similar in both level and trend to income poverty, as shown in figure 5 in the paper. Despite SEPM and SIPM tracking nearly perfectly since 2009, there was some divergence between them in the years leading up to the Great Recession, when consumption poverty was substantially lower than income poverty. I note that there was a similar divergence between poverty and food insecurity during the years prior to the Great Recession. Some of this divergence could be explained by low-income households, especially homeowners, consuming out of assets or on credit in this period, as coauthors and I argue in a recent working paper (Anderson and others 2022).

Importantly, the depth and distribution of poverty look more different across the expenditure and income measures. As shown in figure 4 in the paper, while 4.4 percent of households have income levels less than half of the poverty threshold, the share is substantially smaller—only 1.1 percent—in the spending measure. That is good news and suggests that the share in deep income poverty—whether due to real income fluctuations or measurement error—likely overstates the share of households experiencing deep material deprivation. On the other hand, because there is a substantial mass of households with expenditures just above the poverty threshold, it also changes the share in near poverty (less than 150 percent of poverty) from

1. National Academies of Sciences, Engineering, and Medicine, "Evaluation and Improvements to the Supplemental Poverty Measure," <https://www.nationalacademies.org/our-work/evaluation-and-improvements-to-the-supplemental-poverty-measure>.

one in four by the income measure to one in three by the spending measure. The sensitivity of the rate of poverty to the threshold matters because there is considerable uncertainty as to where to draw the “correct” poverty line—which, as the authors point out, is ultimately socially determined—and that economic well-being is surely not discontinuous at this threshold.

Poverty rates by subgroup vary somewhat across measures as well. Some of these align with my expectations, such as those with high levels of education have a lower expenditure poverty rate than income poverty rate. But other patterns are more puzzling, such as the much higher rate of expenditure poverty among homeowners without a mortgage.

The authors raise an interesting thought experiment on incorporating potential spending in the poverty measure by adding in liquid potential resources such as savings and unused credit cards. It is useful that they highlight the under-explored questions about the role of precautionary savings and credit in consumption smoothing among low-income families, which if spent could reduce the share of households in poverty but generally does not change the time pattern (as they show in figure 9). At the end of the day, this part of the paper is more speculative than anything. For one, the data are not up to the task of credibly assigning potential spending. More fundamentally, I am skeptical that we would want to define someone as not in poverty if they could have increased their consumption by incurring credit card debt (and the inter-temporal consumption shifting that implies).

There are remaining quibbles about measurement worth noting. A challenge of using spending data is always how to measure the flow value of durable goods. Generally, researchers put substantial thought into imputing flow values of vehicles but throw up their hands when it comes to other large-ticket items such as refrigerators and HVAC that are large enough to shift consumption relative to a poverty threshold. The authors do not solve these long-standing problems, and neither will this discussant. There are challenges well known to the SPM approach as well, including how to accurately define who is in the family unit and how to adjust the poverty threshold for family size, geography, and homeownership status. There are many devils in these details; as the authors show, even small changes to the poverty threshold can substantially shift poverty rates.

Overall, Fitzgerald and Moffitt are to be commended for a serious and thoughtful addition to the measurement of poverty with their SEPM. It gives us another approach to measuring household well-being that is based on expenditures and is comparable to a widely cited income measure. Their work also highlights the sensitivity to the poverty threshold and other details of measurement.

REFERENCES FOR THE SCHANZENBACH COMMENT

Anderson, Patricia M., Kristin F. Butcher, Hilary W. Hoynes, and Diane W. Schanzenbach. 2022. “Food Insecurity and the Business Cycle.” Working Paper.

Fisher, Gordon M. 1992. “The Development and History of the Poverty Thresholds.” *Social Security Bulletin* 55, no. 4: 3–14.

GENERAL DISCUSSION Bruce Meyer argued that the authors’ supplemental expenditure poverty measure (SEPM) has not taken recent research into account, including an interagency report and an American Enterprise Institute report.¹ He also claimed that the authors defined “ability to pay” too arbitrarily. He then wondered about the rationale behind the decision to include unused credit lines but exclude other resources that households potentially have access to—like getting a second mortgage or increasing labor supply—and said that consumers’ potential consumption does not measure their revealed preferences.

On one hand, Meyer pointed out, the authors’ decision to include the ability to borrow may double- or triple-count consumption. For instance, the metric could track a purchase both when a consumer bought something on credit and again when they pay back the loan. On the other hand, Meyer observed, the SEPM excludes much of the first- and second-largest consumption categories: housing and transportation. Meyer’s 2012 work with Jim Sullivan found that three-fourths of those considered in poverty by the supplemental poverty measure (SPM) own a car, and around four in ten own a house.² He figured that car and home ownership among the poor is likely higher using the authors’ measure since it omits the flow of consumption from owned houses and cars.

Rather than recognizing that poverty thresholds are socially constructed, Meyer suggested that the paper recognize thresholds as arbitrary, as did Mollie Orshansky, the economist who developed the official

1. *Final Report of the Interagency Technical Working Group on Evaluating Alternative Measures of Poverty*, 2021, www.bls.gov/cex/itwg-report.pdf; Richard V. Burkhauser, Kevin C. Corinth, Bruce D. Meyer, Angela Rachidi, Matt Weidinger, and Scott Winship, *Addressing the Shortcomings of the Supplemental Poverty Measure*, American Enterprise Institute, July 2, 2021, www.aei.org/research-products/report/addressing-the-shortcomings-of-the-supplemental-poverty-measure/.

2. Bruce D. Meyer and James X. Sullivan, “Identifying the Disadvantaged: Official Poverty, Consumption Poverty, and the New Supplemental Poverty Measure,” *Journal of Economic Perspectives* 26, no. 3 (2012): 111–36.