Owner-Occupied Shelter in Experimental Poverty Measurement with a 'Look' at Inequality and Poverty

Thesia I. Garner and Kathleen S. Short

Official Poverty Measure

- Established in the mid 1960s
- Cost of food, use of multiplier for other
- Adjusted for family size and composition
- Adjusted over time
- Constant across geographic area
- Compare income to poverty threshold

National Academy of Sciences

- ⌘ 1995 report
- ⌘ Recommendations
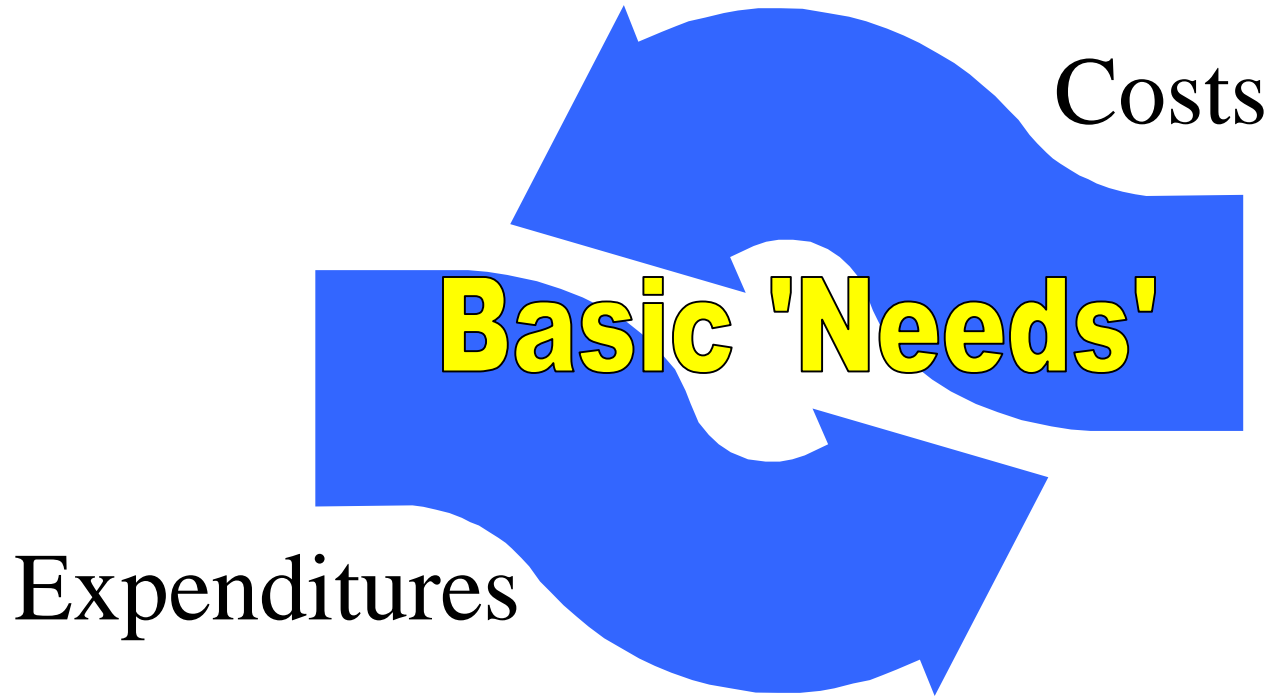 - ⬆ Thresholds
    - ⊠ Spending on basic needs
      - food, clothing, ***shelter***, utilities
  - ⬆ Resources
    - ⊠ cash income + noncash benefits - necessary expenses
  - ⬆ Consistently measured

Concept underlying threshold

Costs

Basic 'Needs'

Expenditures

In this paper . . .

- Vary measure of shelter cost
- Calculate thresholds
- Examine equivalence scales
- Look at distribution of bundles
- Consistently measure resources
- Compute poverty rates

Data

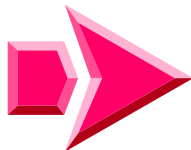- ⌘ Thresholds
  - ⌃ U.S. Consumer Expenditure Interview Survey: 1998Q1-2001Q1
- ⌘ Resources
  - ⌃ Current Population: March 2001 Supplement

➤ Thresholds, Resources,
and Poverty Rates for year 2000

Shelter costs definitions

- ☒ CE publication

- ☒ CE outlays (+principal payment)

- ☒ Reported rental equivalence (RRE)

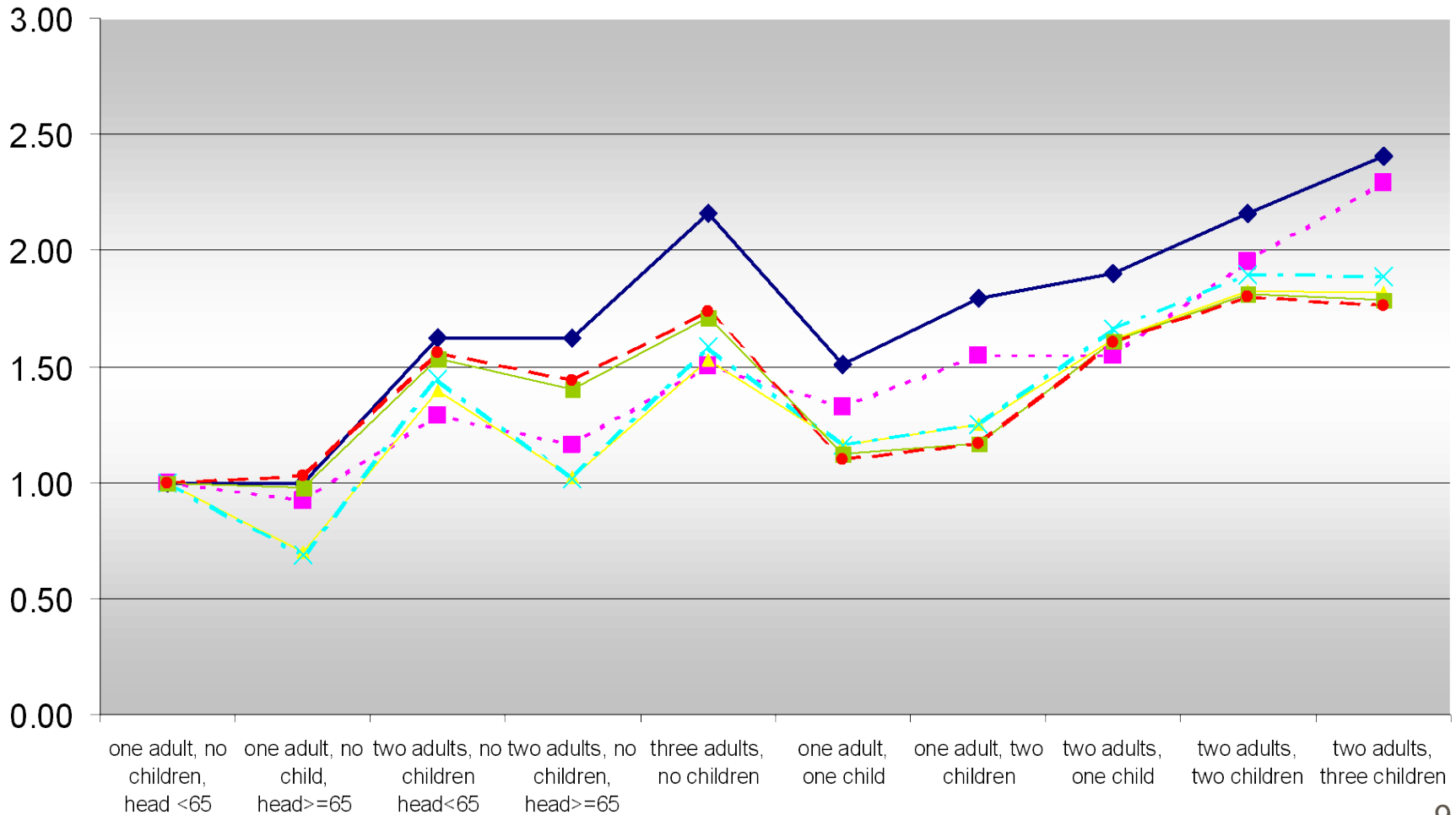- ☒ Imputed rents based on BEA approach (using RRE and market value)
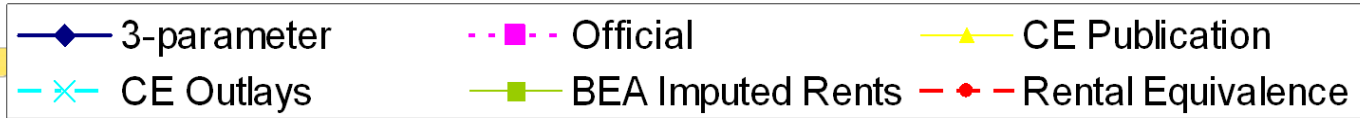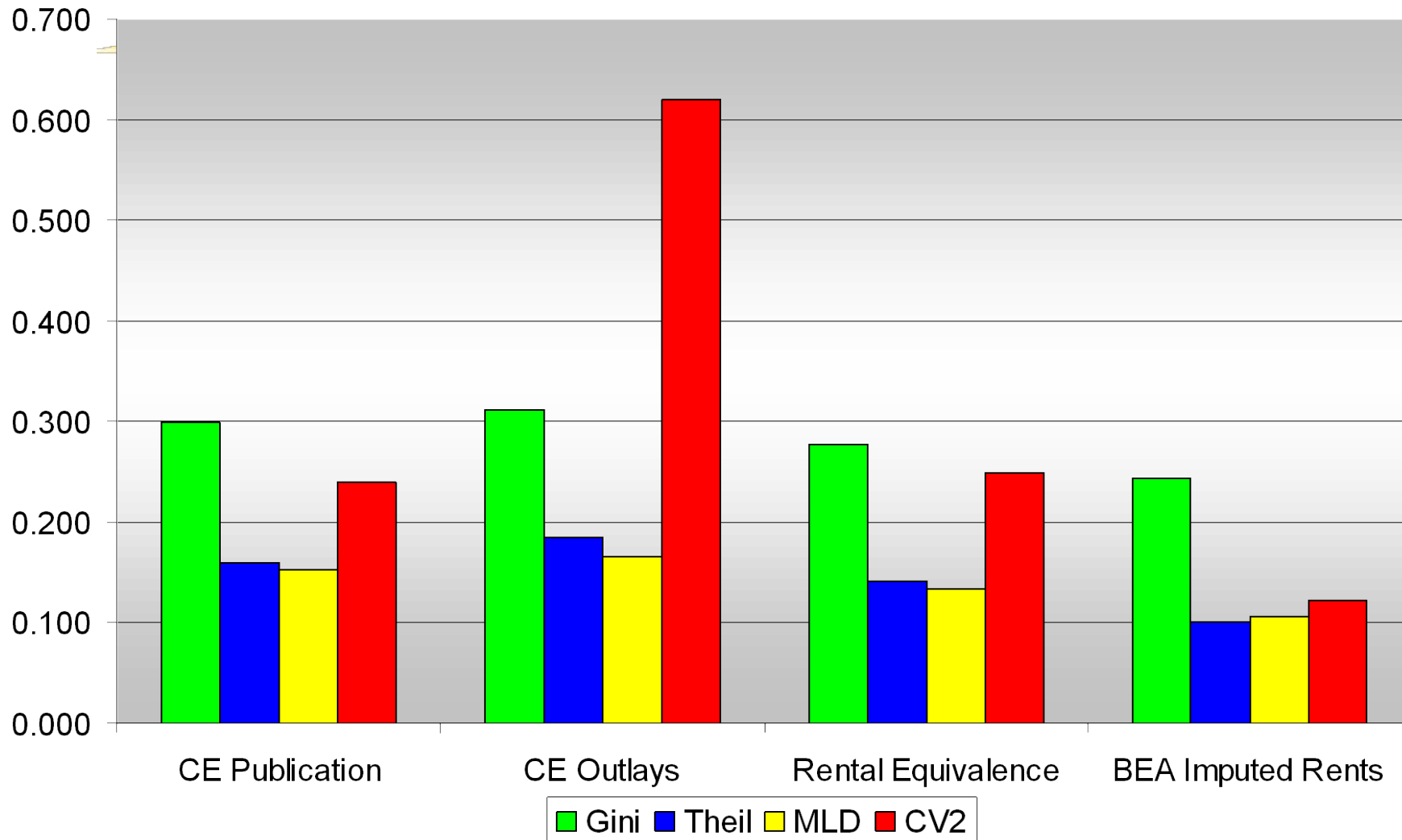
Thresholds

⌘Reference family thresholds

- CE publication -- $17,884
- CE outlays -- $19,053
- Rental equivalence -- $20,565
- BEA method -- $21,036

3-Parameter and Implicit Equivalence Scales

Legend:
- 3-parameter
- Official
- CE Publication
- CE Outlays
- BEA Imputed Rents
- Rental Equivalence

Categories (x-axis):
- one adult, no children, head <65
- one adult, no child, head>=65
- two adults, no children head<65
- two adults, no children, head>=65
- three adults, no children
- one adult, one child
- one adult, two children
- two adults, one child
- two adults, two children
- two adults, three children

9

FCSU Inequality Using Implicit Equivalence Scales: Selected Families

NAS FCSU Thresholds…

- Underestimate shelter cost
- Have too few economies of scale
- Do not include 'discretionary' housing element represented by payment on mortgage principal

Use in poverty measure

- ⌘ Threshold for reference family

- ⌘ Apply 3 parameter equivalence scale

- ⌘ Calculate consistent resource measure

- ⌘ Compute poverty rates for subgroups

Resource measure

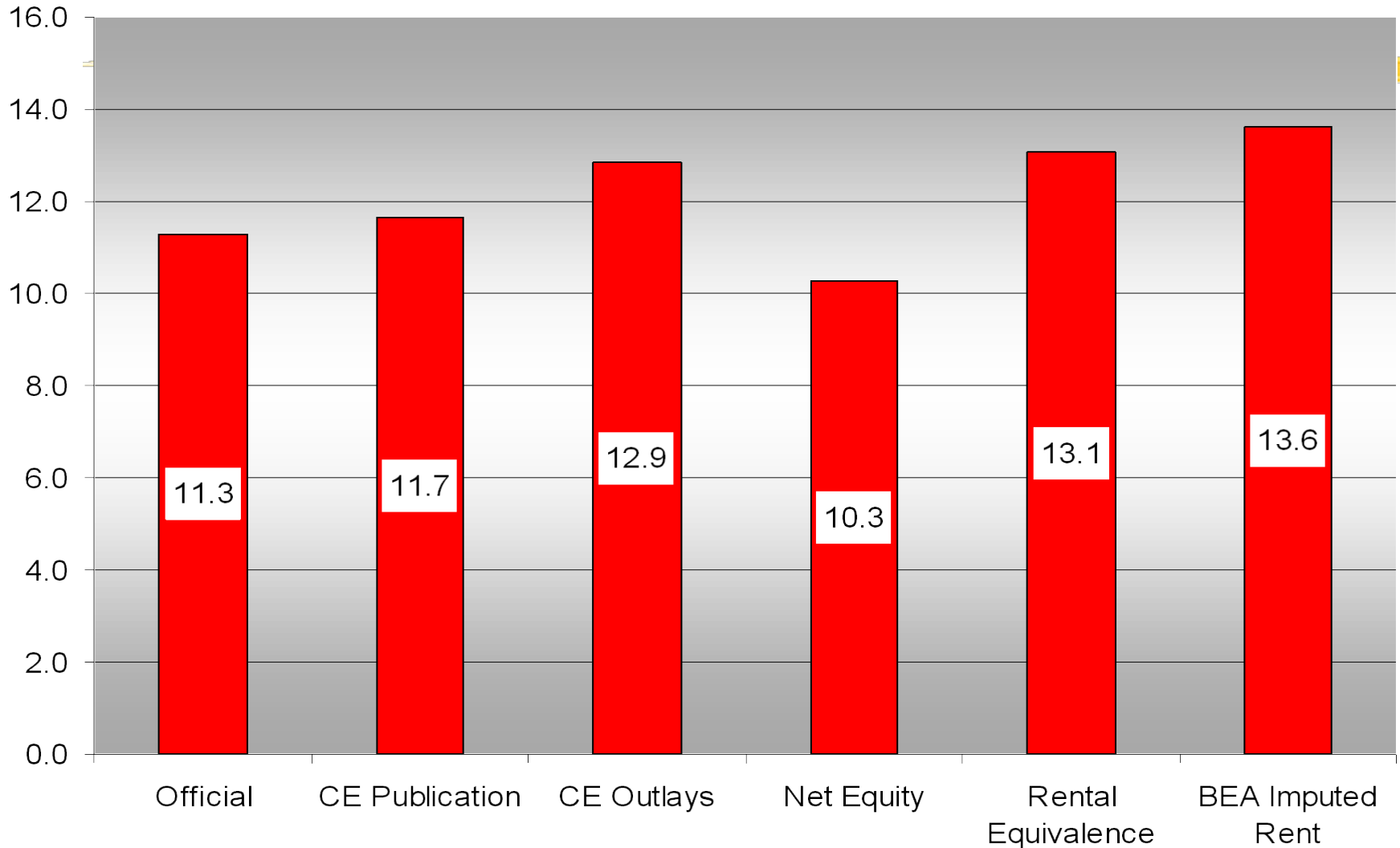⌘ Out-of-pocket shelter expenditures

ᴧ income

⌘ Rental equivalence

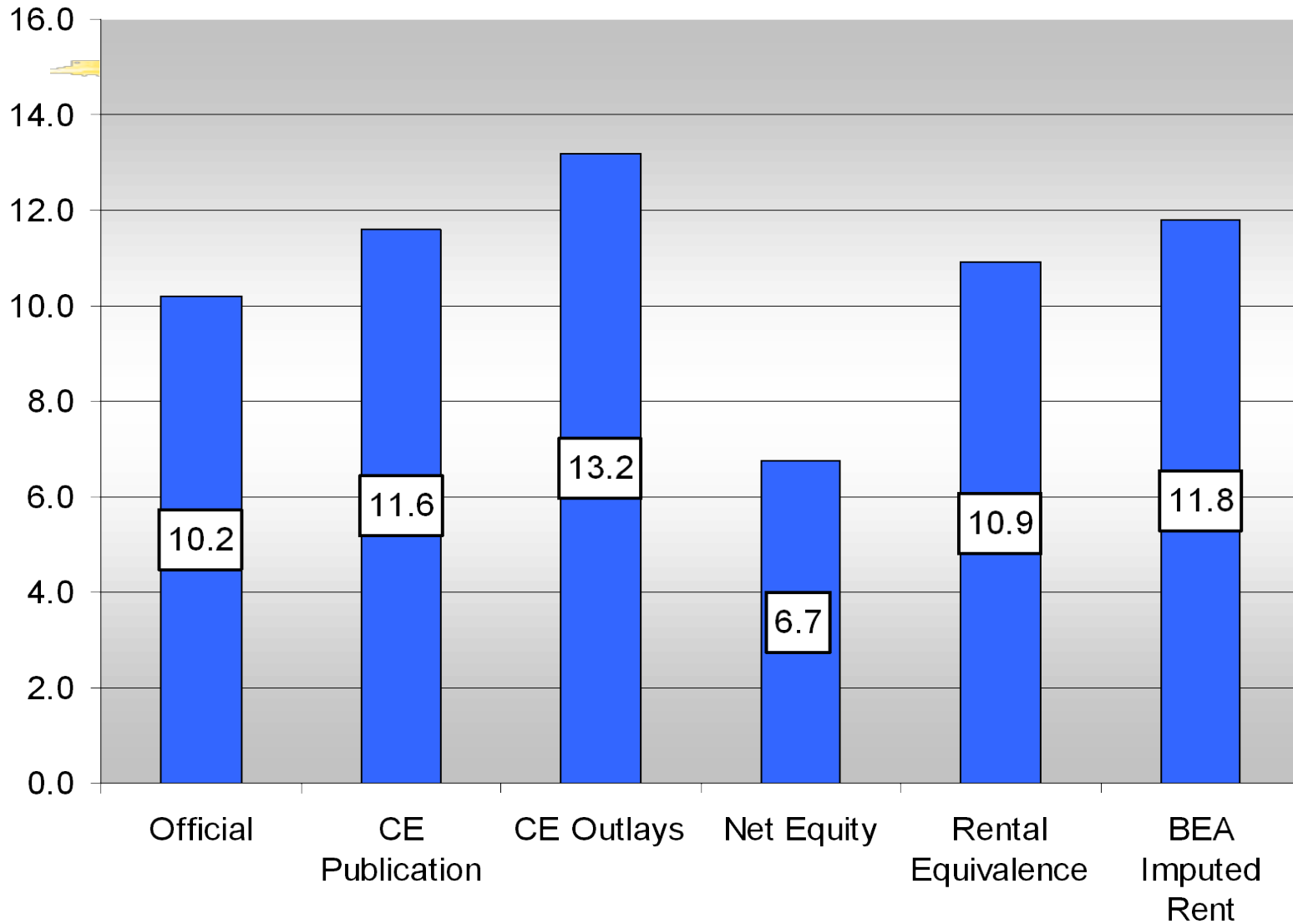ᴧ income + net return to home equity

ᴧ statistical match CPS to AHS

ᴧ rate of return on high-grade municipal bonds

- 5.77 percent in 2000

Poverty Rates for All Persons: 2000

Official	CE Publication	CE Outlays	Net Equity	Rental Equivalence	BEA Imputed Rent
11.3	11.7	12.9	10.3	13.1	13.6

Poverty Rates for Elderly: 2000

Category	Rate
Official	10.2
CE Publication	11.6
CE Outlays	13.2
Net Equity	6.7
Rental Equivalence	10.9
BEA Imputed Rent	11.8

15

Conclusions

- FCSU thresholds
  - too low
  - underestimate economies of scale
  - nondiscretionary measure of shelter
- poverty estimates that account for owner-occupied housing
  - higher for all groups
  - relatively lower for homeowners -- elderly