

# **Urban Poverty and Affluence**

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Lecture 3

The Poverty Line

# How do we define 'poverty' in the US?

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Compared to other parts of the world,  
even our poorest citizens are wealthy!

Do we devise a relative number, or an  
absolute number?



# The Poverty Line

- Absolute poverty thresholds were developed in 1963 by Mollie Orshansky, an economist working for the Social Security Administration.
  - First, Orshansky estimated food costs for various kinds of families. From there, she came up with a minimum food budget.
  - Second, she assumed that no matter what, families spent about 1/3 of their income on food.
  - When a family cut back to the point of going under the minimum food budget, they were impoverished.

# Defining the poverty line

- The threshold for poverty-level incomes is, then, a minimal food budget, multiplied by 3, adjusted for inflation.
- Everyone whose income is below this “line” is considered to be living in poverty.
  - In 2010, the US government considers an annual income of \$21,756 to be the poverty line for a family of four.



# What is the Poverty Line used for?

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- Poverty numbers are the most widely followed income statistics in the country.
- They are used to decide who qualifies for:
  - Children’s Health Insurance
  - Parts of Medicaid
  - Head Start
  - Food stamps
  - Tax credits
- How many people are “poor” in the country, a state, or a city, and to evaluate public assistance programs.

# Critique of the Poverty Line

- Poverty line calculations do not factor in the value of food stamps or tax credits.
- They ignore that a growing share of a low-income family's budget is spent on expensive necessities, like health care, housing, transportation, childcare.
- The cost of these necessities has risen much more rapidly than has the cost of food in the last 40 years. (Experts estimate that nowadays, families spend 1/8 of their income on food).
- In New York City, especially, most people spend close to 50% of their income on rent.



# Safety Net Programs

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- Safety Net Programs are supposed to lift people above the poverty line, or keep them from falling under it.
- “Universal Programs” – those that help everyone. Examples: social security, and unemployment insurance.
- “Means-tested” programs: designed only for people who fall below the poverty line. Examples: supplemental social security; TANF; Food stamps, housing assistance.

# Relative Poverty Line?

- What kinds of things would *you* include?
- What should we measure against?



# Minimum vs. Living Wages

- In 2006, the “real” (adjusted for inflation) value of the minimum wage was only 63% of its 1978 value.
- In 2007, Congress raised the federal minimum wage from \$5.15/hr. to \$7.25
- State minimum wages override federal, but in NY, they are the same (\$7.25/hr.).
- A “living wage” would more realistically reflect living expenses.

# Summary

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- 72% of low income families work, and they work long hours.
- But if they make just over the poverty threshold, they are not eligible for federal programs.
- This means that most poor people in the U.S. are “the working poor”, or underemployed!