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

Thesia I. Garner and Kathleen S. Short

Southern Economics Association Conference
Tampa, Florida
November 18, 2001
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

Basic 'Needs'

Costs

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
FCSU Inequality Using Implicit Equivalence Scales: Selected Families

- CE Publication
- CE Outlays
- Rental Equivalence
- BEA Imputed Rents

Legend:
- Gini
- Theil
- MLD
- CV2
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
- income

Rental equivalence
- income + net return to home equity
- statistical match CPS to AHS
- rate of return on high-grade municipal bonds
  - 5.77 percent in 2000
Poverty Rates for All Persons: 2000

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