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Poverty in a North American Context

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Introduction

Understanding the impact of poverty can be aided by careful measurement. Statisticians and economists, both within the government and in the private sector, collect and analyze poverty-related statistics. Disagreement about the interpretation of those figures can make it difficult for most people to know how they should respond to specific cases of poverty they encounter. For a meaningful discussion to take place, the existing understanding should be presented. This report summarizes the existing research on poverty and provides the interested reader with resources to continue learning about the topic. This report does not offer policy advice or direction to organizations seeking to engage with the problems surrounding poverty.

The experience of poverty is contingent on a variety of factors that describe a person's quality of life. Relevant factors of an individual's likelihood to experience poverty include: education, family composition, race, type of community (rural or urban), region of the country, and medical history.

Poverty in History

Common understanding of poverty compares the relative differences in quality of life among near neighbors in geographical space and time. Consider the quality of life as experienced by most humans over the course of recorded history.

Until about 1800, almost everyone in the world subsisted on the equivalent of what $3 a day in today's money could buy. The most impoverished people in the world today still get by on about the same level of income.

History's hockey stick: Real gross domestic product per capita using the ratio scale, 1000 to 2016

Unit 1 'The capitalist revolution' Section 1.3 'History's Hockey Stick: Growth in income' in The CORE Team, The Economy. Available at: https://tinyco.re/28126370 [Figure 1.1b]
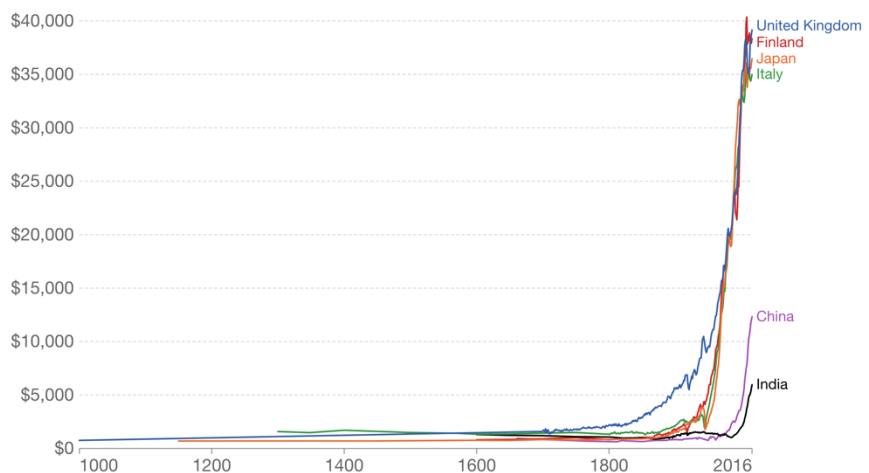
Source: Maddison Project Database (2018)
Note: The units of measurement is 2011 US dollar. The chart uses ratio scale. CC-BY-ND-NC

tinyco.re/28126370 • Powered by ourworldindata.org

Since 1800, most people have moved out of bare subsistence into a middle-class quality of life. This Great Enrichment has been described (McCloskey 2010) as the "hockey stick of economic growth."

Average income took a surprising leap around the year 1800. Since then, many countries have seen average incomes and quality of life increase to 30 to 100 times greater than bare subsistence. For those who live in developed economies, we are jaw-droppingly wealthy in comparison to most humans from most places over most of time.

World population living in extreme poverty, World, 1820 to 2015

Extreme poverty is defined as living on less than 1.90 international-$ per day.
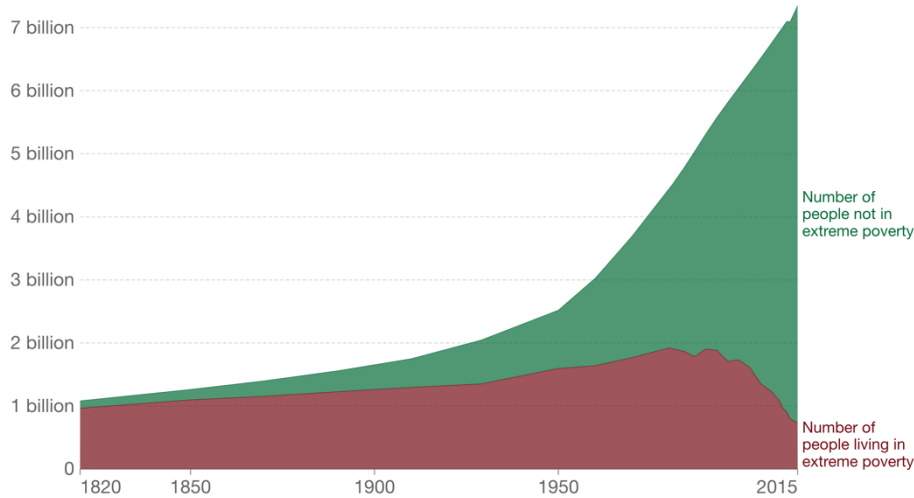International-$ are adjusted for price differences between countries and for price changes over time (inflation).

Number of people not in extreme poverty

Number of people living in extreme poverty

Source: Ravallion (2016) updated with World Bank (2019)   OurWorldInData.org/extreme-poverty/ • CC BY
Note: See OurWorldInData.org/extreme-history-methods for the strengths and limitations of this data and how historians arrive at these estimates.

The share of the world living in extreme poverty has decreased since 1800, even while population has grown. Today, less than 10% of people live at bare subsistence. This remarkable shift has been accompanied by increased lifespans and a decrease in the number of children per woman.

Within the last 30 years, 2 billion people globally moved out of bare subsistence into higher income levels. This shift involves changes like access to clean water, education for girls, vaccinations for childhood diseases, availability of electricity and transportation, and food stability.

Distribution of population between different poverty thresholds, World, 1981 to 2017

Poverty thresholds are all in 'international dollars' at constant 2011 PPP prices. This means all figures account for cross-country differences in price levels, as well as for inflation.

above 10$ a day

5.50 - 10$ a day

3.20 - 5.50$ a day

1.9 - 3.20$ a day

below 1.90$ a day
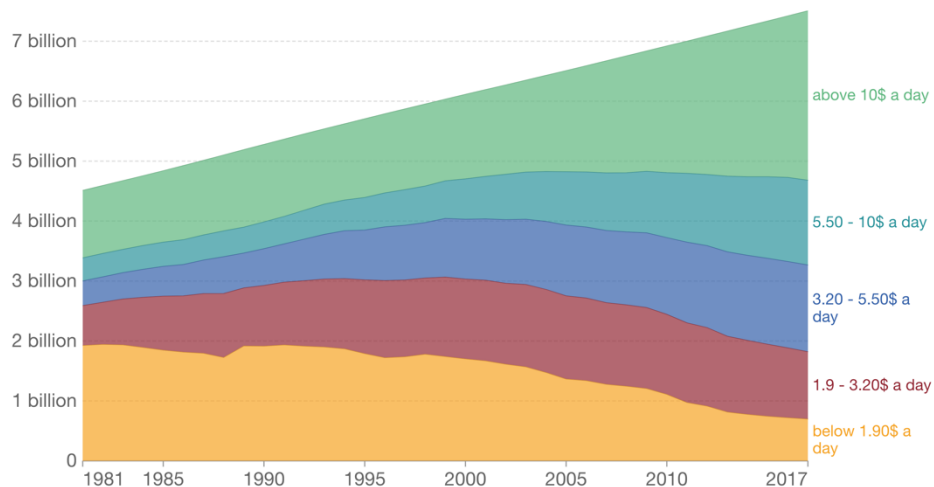
Source: World Bank, PovcalNet 2019   OurWorldInData.org/extreme-poverty • CC BY
Note: Consumption per capita is the preferred welfare indicator for the World Bank's analysis of global poverty. However, for a number of countries poverty is measured in terms of income. An income basis is common amongst high income countries and Latin American countries.

Not Just Rich or Poor: Four Income Levels

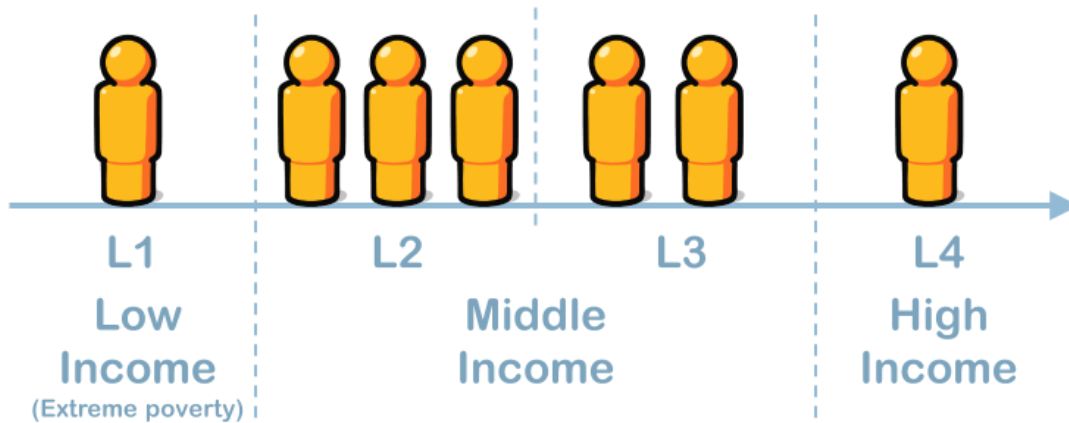The world today is not divided into two simple categories: the rich and the poor. Rather, physician and demographer Hans Rosling (2018) recommends thinking about people as fitting into four levels.

WORLD POPULATION (billion)
by four income levels

Free teaching material from www.gapminder.org

Level 1 includes 1 billion people and describes those who live on $2 or less per day, mere subsistence, barely staying alive. This quality of life is similar to that of almost everyone in the world up until the year 1800. Around the time of the Industrial Revolution, economic growth emerged out of Northern Europe, and spread to most of the world. Hardly anyone in the United States lives at this level of poverty today.

Level 2 includes about 3 billion people, and the quality of life increases to between $4 and $8 a day. People living at this level can afford shoes and some medicine and education for their children. Infant mortality rates decline and life expectancy increases. Also, many children complete primary education. However, even one small catastrophe can set a family living at this level back to a Level 1 lifestyle.

Level 3 includes about 2 billion people, and the quality of life increases to between $8 and $32 a day. People living at this level typically have clean running water in their living spaces, they might own a motorcycle, and are able to send their children to high school. Families may be able to put money aside for savings in case of emergency, therefore, a small catastrophe does not force them back to a lower level. This lifestyle is often considered deep poverty in the United States, because it is so rare.

Those living with more than $32 a day (1 billion people) are grouped in **Level 4**. People living at this level typically have hot and cold running water in their homes, have access to at least 12 years of education, reliable transportation, and comfortable bedding and clothes. A small

catastrophe will usually be covered by insurance, liquidation of assets, or mitigated through access to credit. Almost everyone living in the United States is in Level 4.

The United States in Four Levels

Each income group in Rosling's description has an income roughly quadruple that of the level below it. Within the United States a similar dynamic exists among different income groups, though the baseline is much higher.

Graphic adapted from www.gapminder.org. Data from US Census Bureau. Current Population Survey (CPS) Annual Social and Economic (ASEC) Supplement.
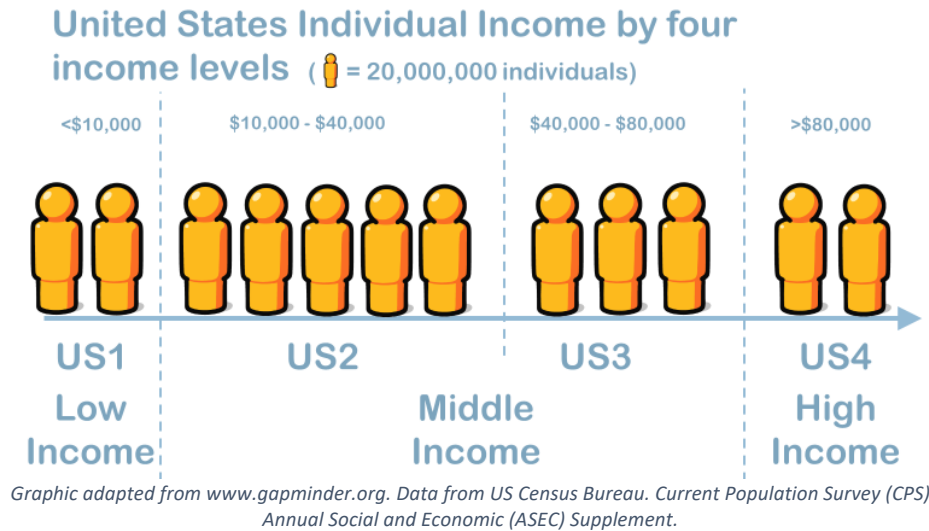
In the United States, roughly 40 million adults over the age of 15 earn less than $10,000 a year (US1, Low Income). Over half of these low-income individuals are either young adults (under age 25) or people over the age of 64. Many of these individuals live with family members who earn more.

About 100 million individuals earn between $10,000 and $40,000 annually (US2, Middle Income). Some of these are sole breadwinners for their households, and many live with others who also have incomes. Another 60 million individuals earn between $40,000 and $80,000 a year (US3, Middle Income). Finally, 40 million workers in the United States earn more than $80,000 a year (US4, High Income).

In Rosling's categories, anyone living on more than $32 a day is at global Level 4. At that rate, the global Level 4 annual income begins at $11,680. Individuals
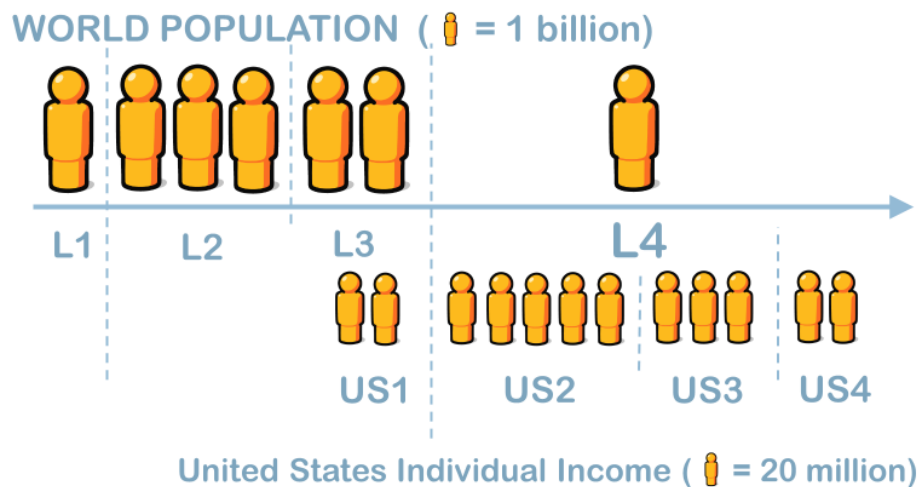
earning middle incomes in the United States are all in the global Level 4 compared to the rest of the world.

Poverty in the United States: Official Definition

United States government agencies have developed official definitions of poverty that determine the allocation of government transfers such as Social Security, the Supplemental Nutritional Assistance Program (SNAP), and other similar programs.

The United States Government has used a simple formula to determine the poverty threshold since 1960. The official measure uses three times the cost of a minimum food diet in 1963 in today's prices. For a family of 4 with two adults and two children, the poverty threshold in 2018 was $26,246 (U.S. Census 2021), or about $18 per person, per day; within Level 3 on Rosling's description. The United States Government also sometimes uses a Supplemental Poverty Measure that takes into consideration food, clothing, shelter, and utilities. The Supplemental Poverty Measure for a family with a mortgage was slightly higher than the official poverty measure in 2018.

These official definitions are often used to describe whether a person is "in poverty." However, the statistical calculations used to set the poverty threshold are somewhat arbitrary, and the poverty threshold is well above mere-subsistence poverty. The official definitions are a benchmark for administration of government programs, though some programs set their own thresholds (U.S. Bureau of Labor Statistics 2018), different from the official measure.

The additional support from government programs, family, and private programs can help a low-income person improve their quality of life. Frugality, home production, and informal market activity can further mitigate a person's quality of life, though they would be officially counted as "in poverty."

Using the official poverty threshold, the U.S. Census (Semega et al. 2019) identifies 38.1 million people who are in poverty as of 2018. The share of the population in poverty declined from 14.8% to 11.8% between 2014 and 2018.

Who is Living in Poverty?

The conditions related to poverty include factors such as education, type of community (rural or urban), geography, age, race, gender, citizenship, marital status, and disability. Membership and participation in a faith community can mitigate an otherwise vulnerable individual's likelihood of experiencing poverty. Typically, multiple factors are observed in combination for any particular individual experiencing poverty. Many individuals are in poverty due to calamity or life experiences not related to individual decisions, and have little to no prospect of increased income in the future.

Factor	Description	Poverty Likelihood
Education	No high school diploma	More likely

Urban or Rural	Lives in a rural community	More likely
Geography	Lives in the south	More likely
Age	Between 25 and 64	Less likely
Race	Black	More likely
Gender	Female	More likely
Citizenship	Immigrant	More likely
Marital status	Unmarried woman with children	More likely
Disability	Currently has a disability	More likely

Factors of Poverty

1. Education

Education is a major contributing factor to poverty. Most people in the United States have experienced a higher quality of life since the 2008 recession. However, people without a high school diploma have experienced increased poverty (Semega et al. 2019). In a competitive job market, employers prefer to hire workers with more education, even if the particular skills learned in school are not used on the job. The benefit of having an accredited diploma is sometimes (Caplan 2018) called the "sheepskin effect," meaning that regardless of skills learned in school, completion of a program of study improves a person's earning prospects.

2. Urban or Rural

Rural communities experience higher rates of poverty. There are fewer opportunities to find employment in a specialized skill in rural areas, and access to groceries is more difficult for rural populations. "The median distance to the nearest food store for rural populations in 2015 was 3.11 miles" (Simpson 2019). Also, rural communities in poverty cannot access many of the amenities available to those impoverished in urban areas, such as public transportation, nearby health care providers, libraries, and post-secondary education.

In contrast, urban areas continue to experience decreases in poverty rates. Urban centers can increase the productivity of all workers, as each individual has better opportunities to find work that matches her skill set, yet those raised in urban poverty have a difficult time rising to higher income levels. Research shows (Chetty et al. 2020) that some cities have "experienced very high rates of job and wage growth over the past two decades, yet they have among the lowest rates of upward mobility for children who grow up there. These cities achieve high rates of economic growth because they are magnets for talent—i.e., they attract high-skilled people to move in and fill high-paying jobs."

3. Geography

Looking broadly across the United States (Henderson 2019), poverty rates have been decreasing everywhere except states in the American South, where the poverty rate increased from 13.1% to 13.6% in 2018.

4. Age

Age influences income status. Older workers are staying in the workforce longer than in previous generations. In many ways this is related to increased longevity. The "nest egg" that a worker needs to set aside for retirement has to be larger than in the past, because that individual is likely to live longer after retirement. Older workers are able to remain productive into their later years. On the other hand, some older workers have seen loss of retirement funds as a consequence of macroeconomic changes, and continue to work to rebuild their "nest eggs." Younger individuals, aged 16 to 24, have been encouraged to get more education before entering the workforce and have been crowded out of many entry level opportunities by older workers who have returned to the workforce, and so are less likely to be employed (U.S. Bureau of Labor Statistics 2019).

5. Race

Black people are more likely to be in poverty (Semega et al. 2019).

6. Gender

Gender influences changes in poverty (Semega et al. 2019).

7. Immigration

Most United States citizens enjoy a better quality of life than their parents as economic growth continues. However, economic opportunities in the United States continue to attract immigrants. Immigrants are more likely to be in poverty. In 2017, 15.2% of immigrants were living in poverty, compared to 11% for citizens. Immigrants are more likely to work in the informal market, and are less likely to be well-educated. Of the 44.4 million immigrants recorded in 2017, 50% had only a high school education or less (Radford et al. 2019).

8. Marital Status

Unmarried women with children are more likely to be in poverty (DeSilver 2014). The working poor in the United States tend to be primarily single parents who work minimum wage jobs and have children.

9. Disability

People who have a disability are more likely to be in poverty (Semega et al. 2019).

Income Mobility

Table 1. Chances of Moving up or Down the Total Family Income Ladder
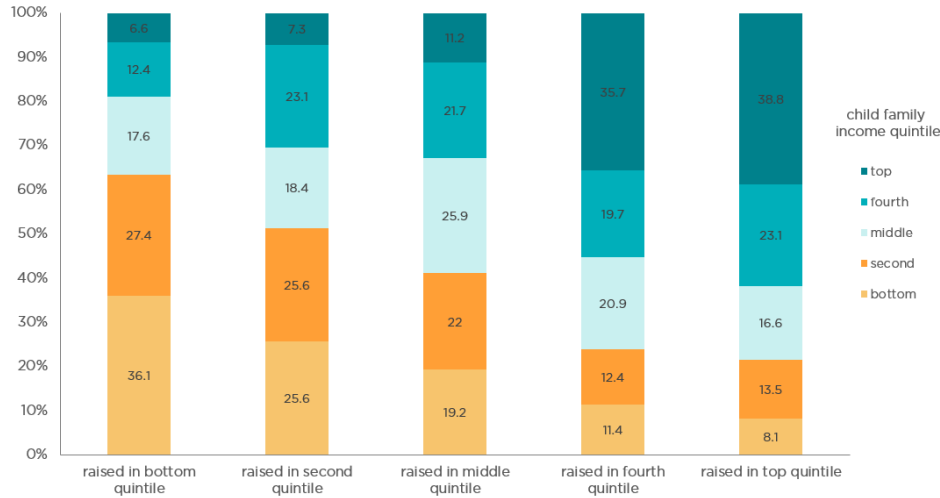
Data source: The Panel Study of Income Dynamics (PSID), authors' calculations.
Data notes: Data weighted by most recent individual longitudinal weight. Sample restricted to individuals ages 40-49 in 2013, 2015, or 2017 who were ages 0-18 during parent income years. Sample includes SRC and SEO subsamples from the PSID. Income adjusted for family size by dividing by the square root of family size and for inflation using the PCE-PI.

Figure: (Strain 2020)

Almost all individuals in the United States living below the official U.S. Poverty Line are better off than the 6 billion people in other countries living at Levels 1, 2, and 3 from Rosling's description. People from low income groups in the United States also have a nearly 2 in 3 chance of moving to a higher income group at some time in their lives.

Of individuals raised in the bottom quintile of families in the United States, 63.9% move into a higher quintile. Of those who arrive in the highest quintile, 61.2% rose to that level from a lower level. However, some research (Chetty et. al. 2018) indicates that the characteristics of the people that children grow up around may have the most influence on the child's outcome.

Inequality

Recently, focus has shifted somewhat away from understanding poverty to analysis of income inequality. The primary problems of income inequality are not directly related to income but rather the social hierarchies, attitudes, and stigmas that may develop from income disparities. Russ Roberts (2010) frequently makes the point that generally, humans do not want money handed to them. They want to feel like they are doing something meaningful, belong to a community, and have value as an individual. Religious institutions such as churches may have the opportunity to engage these problematic social dynamics stemming from income inequality with concepts such as vocation and strong communal interdependence irrespective of income.

Poverty and Entrepreneurship

Economies and economic opportunities grow when entrepreneurs discover new ways of increasing productivity, making more with less. An entrepreneur might use existing resources or workers to produce a new product that people want, or to produce an existing product more efficiently. An entrepreneur might also find ways to make use of previously unused resources or to employ people who had previously been out of the work force. Technological advancements have made it easier for people with disabilities to contribute to economic activity, and for people

with competing demands on their time to work part-time. Such advancements are not sensitive to arbitrary determinations of poverty or to changes in programs that provide assistance to the poor.

Disclaimer: COVID-19

This report was drafted while many U.S. cities and states were under lock-down orders related to the COVID-19 crisis. During this crisis the number of people filing for unemployment increased by more than 20 million. Workers in hospitality, services, and some manufacturing sectors have been negatively affected more than other groups. Statistical analysis of the consequences of this crisis have not yet been completed, and will not have general application until the crisis has passed. In the years to come the number of individuals in poverty in the United States is likely to increase, at least temporarily. Similarly, people living at Levels 2 or 3 in Rosling's description may fall into lower levels for a time. On the other hand, most of the resources necessary for producing the goods and services that contribute to a higher quality of life have not been damaged. A period of relative frugality in consumption, so that resources can be used to meet the needs of the crisis, followed by an industrious return to normalcy could lead to increased rates of economic growth. New research will address these issues for many years to come.

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