

EconoFact Chats: Poverty in America
Jeffrey Fuhrer, Brookings Institution
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I'm Michael Klein, executive editor of EconoFact, a non-partisan web-based publication of the Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at www.econofact.org.

Michael Klein

The Bible says the poor are always among us, but how many are there? One answer is offered by official poverty statistics. In 2022, the official poverty rate in the United States was 11.5%, about one in eight Americans. The economist Jeffrey Fuhrer argues that this is a vast undercounting of the number of people who struggle to meet their daily needs. He has recently done research that comes up with some very different, much larger numbers. Jeff's interest in this issue is linked to his broader interest in inequity. He is the author of the 2023 book, 'The Myth That Made Us.' The "myth" in the title is the idea that, as Jeff writes, 'success goes to those who work hard, failure goes to those who do not.' In that book, Jeff shows that this myth is not an accurate reflection of reality, but it has shaped policies and public perceptions in a way that has caused economic harm to millions of people. Jeff has long experience in economic policymaking. He served for almost four decades in the Federal Reserve system, first at the Board of Governors in Washington, followed by more than 25 years at the Federal Reserve Bank of Boston, where he served as Research Director and Special Advisor to the President of that federal reserve bank. Currently, Jeff is a non-resident fellow at the Brookings Institution and a Foundation Fellow at the Eastern Bank Foundation. Jeff, welcome back to EconoFact Chats.

Jeffrey Fuhrer

Thanks, Michael. It's nice to be back.

Michael Klein

Jeff, in the introduction, I cited the 2022 poverty rate of 11.5%. What does this number refer to?

Jeffrey Fuhrer

So, as you said, that's the official poverty rate the Census Department defines it in the following way. They start with an official poverty level, which is an amount of family income that varies by the composition of the family. So, it's higher for families with more adults and children, lower for smaller families and for single adults. You're deemed as being in poverty if your income falls below that poverty line that Census defines. And then the poverty rate is the percentage of families whose income falls below the poverty line. Now, it's important just to note that the

Census provides a second measure of poverty as well that they call the supplemental poverty measure. And that's based on a more expansive measure of the resources available to families. Importantly, it includes government assistance like food stamps, used to be called food stamps, which is SNAP now, the earned income tax credit, housing subsidies, and so on. And I prefer that measure because it will show us when key programs like the enhanced child tax credit in 2021 helped to lift families out of poverty. Of course, on the flip side, it also showed the spike in the poverty rate that occurred when that benefit expired in 2022.

Michael Klein

How does the Census Bureau come up with numbers like \$30,900 in 2023 for a family with two adults and two children?

Jeffrey Fuhrer

Well, you might ask. It's kind of a wacky number really. It started back in the 1960s, and it's based on an estimate of the cost of a very frugal food budget for a family of a given size. And then they took that food budget number and multiplied it by three, as Dave Barry says, likes to say, 'I'm not making this up,' as a really crude estimate of the cost of non-food items in families' budgets. And since then, that poverty level has been adjusted for general increases in the cost of living.

Michael Klein

But is it still basically the food budget times three?

Jeffrey Fuhrer

I mean, they've made some very small adjustments. They have over time adjusted a little bit what the food budget includes. But that's really the basis for it even today for that official measure. It's a little wacky. But at least it's adjusted for inflation. That's good.

Michael Klein

Well, you point out that these estimates fall far short of the actual cost of providing for families today. What benchmark did you use in your analysis? And how big a difference does it make for calculating the number of people who struggle to make ends meet?

Jeffrey Fuhrer

Well, I started looking at this because to me, it's patently obvious that 31,000 bucks is not remotely close to what it costs to provide basic necessities for a family of four. It's certainly not in major metropolitan areas. And I mentioned the supplemental poverty measure – is it the case that government assistance helps bring families closer to sustainability? And the answer is yes, but not nearly enough. So, this is what I did. I took an estimate of total family resources, all the resources available to the family, including the income they earn plus the government support

and so on. And then I compare those total resources for the family of a given structure to the actual cost of purchasing necessities in the county in which the family lives.

Michael Klein

How did you figure out necessities, Jeff?

Jeffrey Fuhrer

So, this is based on data compiled by the Economic Policy Institute. They try to come up with what they call a 'modest but adequate' budget that's based on necessities.

Michael Klein

And what are some of the necessities, Jeff?

Jeffrey Fuhrer

So they're what you would expect, I think. It's food, it's housing, it's some modest amount of health care, child care for families that need to take care of younger children, the transportation that's associated with getting to work, nothing else. There's no vacations or going to Disney World in there, those sorts of things.

Michael Klein

So when you look at that, where in the country can you live on \$31,000 a year if you're a family of four and afford those necessities?

Jeffrey Fuhrer

So you might think that in some of the lower cost, lower income counties in the United States, you could afford it. But the answer is there's literally no county in the United States where a family of four can meet the cost of basic necessities. It's just not possible. When I use those baseline county by county budgets that I just referred to, what I find is that over 40% of all families have total resources that fall short of the cost of basic necessities. And they're not falling short by a few thousand bucks. These are families that are a good \$15,000, \$20,000, \$25,000 shy of actually making it.

Michael Klein

That's really amazing. It's like 11.5% versus 40%. Are the differences between the official supplemental poverty rate and your calculated cost of necessities equally striking across racial and ethnic groups as well?

Jeffrey Fuhrer

Well, sadly, as is the case for a lot of outcomes in the U.S. today, the results are noticeably worse for families of color. So more than half of black and Hispanic families are falling short of the

resources needed to pay for just basic necessities. To me, that's just astounding.

Michael Klein

More than half. That's incredible. What about single parent versus two parent households or households with different numbers of children?

Jeffrey Fuhrer

Those all matter. And as I say, both the budgets and the resource measures are scaled by the composition of the family. And some of these differences are quite dramatic. So smaller families with two adults who are earning incomes are doing noticeably better, even though the percentage is still well above the official poverty rate. Melissa Kearney, as you know, has a book that documents that single parent families struggle much more with the share that falls short of being able to afford basic necessities rising again, well above one half.

Michael Klein

Yeah, Melissa's book has made a very big impact in the country. But also, Jeff, the cost of living differs a lot across the country. It's much higher in a place like here in Boston or New York or Chicago or San Francisco than in small rural towns. So, what do you find when you look at that?

Jeffrey Fuhrer

I mean, it's a tough question. In large part, because the cost of housing varies so much around the country, as you know, and would expect Boston, San Francisco, New York, Chicago housing costs are 50 to 80 or more percent higher than the median cost in the US. It's not only that, of course, it's also the case that for key services, health care and childcare, for example, the cost of those services is higher in part because wages are higher in those areas as well. So, in a sense, it's good news that on average, family resources are also higher in those concentrated metropolitan areas because of higher average wages. But it's not the case that those higher family resources compensate for the higher cost of living. They don't. In fact, the share of families falling short in those locations is generally no less than in low-cost areas. And in some areas, it's quite a bit higher.

Michael Klein

When you look across counties, do you find that the rate of people who can't afford basic necessities differs a lot in rural versus urban counties? Or is it pretty even across different types of counties?

Jeffrey Fuhrer

I wouldn't say it's completely even. There are more, I think I call them very local pockets in both rural areas and in urban areas, where the rates of falling short, my definition of poverty, really soar. It's not the case that all rural areas are that bad. There are some rural areas, for example, in

the oil producing locations in Montana and Wyoming, they're actually doing quite well. Their resources are good because there's energy based income there. So it's fairly local. And I wouldn't generalize to say it's really totally different between rural and urban. There are pockets of poverty all over the place.

Michael Klein

Of course, Jeff, these days, inflation is a focus of a lot of attention and many people are concerned about the rate of price increases. But inflation rates differ across categories of goods as well. And this has implications for the purchasing power of people at different levels of income. I've talked to Alberto Cavallo at Harvard Business School, who has a Billion Price Project, and he alluded to this. You argue that the standard measure of overall price increases understates the cost of basic needs, which are relatively more important for low-income families. In what ways do these official estimates lead to this undercounting?

Jeffrey Fuhrer

So, the simple fact is that the cost of basic necessities, which of course, account for a larger fraction of expenses for lower income households, that has risen quite a bit faster than the cost for non-necessities, such as air travel and leisure goods and electronics and so on. Like about 35% faster since 1960. Basic necessities rose 35% more than other goods. Much of that, of course, is due to the rising cost of housing in all areas of the country. And that is a necessity compared to the relative decline in the cost of many consumer electronics and luxury goods and so on. And as I said, most lower income families are going to spend...higher fraction of their meager income on necessities. But that means that the purchasing power of low income families income has been eroded by much more than that for higher income families.

Michael Klein

Yeah, we had Dan Sichel on the podcast and he headed a commission from the National Academies of Sciences where they talked about having different price indices for different levels of income, or people at different levels of income.

Jeffrey Fuhrer

Yeah, and for the reasons I just articulated and you summarized, I'm in favor of Dan's proposal for essentially getting different CPIs by income group, which he discussed with you earlier. There are some experimental indexes that the BLS has put out. They don't go all the way back in history, but it's clear that there are folks within the statistical agencies and other economists who are focusing on this, which is great.

Michael Klein

Are there also differences across racial groups and ethnic groups?

Jeffrey Fuhrer

Yes. Again, mostly that's because...so the rising cost of necessities affects black and Hispanic households more, disproportionately. And that's mostly because they're proportionally more of those families with very low incomes who are then spending the preponderance of their income on these higher rising costs necessities.

Michael Klein

So you might expect that with these numbers, you'd see widespread destitution across the country. Is it that people like us who are just more fortunate are averting our eyes or are people coping in ways that are not obvious to people outside their households?

Jeffrey Fuhrer

So, I mean, I think to some extent there is widespread destitution across the country. It's not well measured by the poverty, the official poverty rate, but this measure reveals there are far more. Do we avert our eyes? I think we do to some extent, and that's partly because this country still today is segregated pretty strongly both by racial and ethnic and socioeconomic lines.

Michael Klein

And I guess that's bolstered by the "myth" in the title of your recent book.

Jeffrey Fuhrer

Yeah, absolutely. People want to believe that because they're doing well, anyone who works hard must also be doing well. So that might suggest to them that a number like 11% really does reflect that people are not doing well, because it can't really be the fact that...they couldn't accept the statistic I present that more than a third of families or 40% of families are not doing well because of laziness. That's really an untenable position, I think.

Michael Klein

Are there, is there any controversy about the EPI's choice of necessities? And have you looked at that?

Jeffrey Fuhrer

So yes, the EPI's budget numbers, one could argue are a bit on the rich side. That is possible. And in fact, there are a number of margins of debate on this, even though they're trying to define something they call a 'modest yet adequate' standard of living. So, to check for that, I developed two variants for family budgets that err on the side of being a bit conservative. The first one reduces the food budget that the EPI uses. Instead of that one, we go to the very lowest USDA food budget. And the second is that the rents that the EPI uses are the 40th percentile, they're fair market rents. So, it may well be that the very lowest income folks are concentrated in the lowest 20th percentile, say, of rents. So, I make those two adjustments, lower food budget, lower rents.

Together, they reduce the budgets by 25 to 35% compared to the Economic Policy Institute baseline. And I provide another alternative that just more generally reduces the budgets in other categories by a similar amount 25 to 35%. And what that does is that, of course, it decreases the share of families who are not doing well. But what's really striking is even with those much reduced budgets, it's still the case that about one third of all families are falling short, and still significantly higher fractions of families of color, around one half, and the same for single parent families.

Michael Klein

So then how do these people cope, Jeff?

Jeffrey Fuhrer

Well, this is a really interesting question. And I interviewed a number of low-income families, mostly families of color, in the process of writing my book. So, there are some interviews in the book that reflect their experience in exactly this respect. So, they skimp on purchases of goods and services. They don't get preventative health care. They use really cheap and perhaps questionable quality childcare. They economize on transportation. They don't repair their car. They take buses, even though it may take much longer. They also, importantly, they juggle bills. They pay the electric bill one month and the rent the next, maybe missing a payment on rent or medical care or whatever. So, there's a lot of juggling going on.

Michael Klein

But this juggling and this not paying bills, these have important longer term consequences.

Jeffrey Fuhrer

Yeah, for sure. And so let me just highlight a couple. So many, of course, of these households end up incurring more debt than they really should, because it's the only way they can pay for things that they do not have the resources otherwise to pay for. They also save little or nothing. Very little scope for saving. As I said, they cannot quite afford basic necessities. So that means, of course, they can't afford to save as well. Both of those obviously jeopardize their long run economic stability. But missing rent payments also risks eviction. And most of your listeners will have read or heard of the work of Matthew Desmond in which he describes what it's like for a family that goes through serial evictions. It's incredibly disruptive in so many different ways. But just as importantly, when you forego health treatments, you have longer term health issues down the road. All of that juggling incurs costs, whether they're more immediate or longer term. And honestly, it's a mess. It's a mess. And it's painful to listen to folks describe those circumstances.

Michael Klein

So in the introduction, I quoted the Bible statement that the poor are always with us. But it's a little bit misleading. The full passage from Deuteronomy 15:11 is, "for there will never cease to

be needy ones in your land, which is why I command you, open your hand to the poor and needy kinsmen in your land.” So, this is a call for action, not just saying that, well, we can't do anything about it. And I guess your analysis suggests that we haven't been doing enough about it in following this biblical command.

Jeffrey Fuhrer

Yes, however many people are motivated by biblical injunctions today, I think it's still fair to say that we're not doing that well. The prevailing narrative for lots of folks in the United States would suggest that rather than, as the biblical passage says, rather than opening our hands to the needy, we should instead be stingy and mistrustful in our policy, and to some extent, our personal posture towards the poor. So that is a narrative that I think we need to push back on and push back hard. The notion that the poor deserve their plight because they're not working hard enough. That is, honestly, that's utter nonsense. As I like to say, laziness is equally distributed across income deciles. There are lazy rich people. Of course, there are a few lazy poor ones. That is not the distinguishing factor.

Michael Klein

Again, this is the myth that you cite in the title of your book.

Jeffrey Fuhrer

Exactly right. And so going along with pushing back on the narrative, there are other things we can do. One is to develop better measures of the extent of family need. And I'm obviously giving you a starting point in what I've written and what we've talked about during this chat. And there are lots of margins on that debate. And we discussed some robustness checks I did earlier. But what's not really in debate is that the number in need almost certainly exceeds the, say, 11.5% suggested by the official poverty rate. That's almost sure. The number in need is so high that that alone exposes the absurdity of the dismissive narrative that I just cited. There's no way that a third of our families are falling short because they're all lazy. That is absurd on the face of it.

Michael Klein

So what do you propose in terms of policies?

Jeffrey Fuhrer

Yeah, so I think we should invest in policies that essentially provide more equal access to building both human and financial capital. Those include early childhood education, obviously, start from the very beginning. It's shown to have tremendous payback. Livable wages for the working poor, right? I mean, that's at the heart of this is that even working folks are not making enough to survive. And it's clear that the largest corporations have the wherewithal to do this because their profits are at record-breaking levels. We also need to construct much more in the way of affordable housing. We're millions of units short.

Michael Klein

And there's a racial dimension as well, right?

Jeffrey Fuhrer

Unfortunately, almost as always, there's a critical racial dimension here. And that's one of the final ones I want to mention is that as a nation, we need to, together, come to a reckoning about the debt that we owe to Black families in the U.S. And the strongest evidence of the debt we owe is the strikingly lower wealth accumulation among Black families, which as Derek Hamilton and Sandy Darity point out, that's a strong indicator of the cumulative effect of systemic racism on wealth accumulation in those families.

Michael Klein

Yeah. I did a podcast with Sandy Darity. It is very striking what he was pointing out.

Jeffrey Fuhrer

It really is. I mean, I owe a big debt to him. He and I have become colleagues. He's been extremely generous to me. And it's also educated me on a number of things I really need to learn more about, including the history of systemic racism and how it affected wealth accumulation. So, my sense is that we need to start the discussion now as is happening in a few communities, but more broadly, about wealth transfers. I know that those are difficult, and there are many people who have a visceral reaction to them. But I think we need to talk about baby bonds, talk about targeted down payment assistance, which is also a wealth transfer, and of course about reparations. Because we as a country systematically provided wealth building opportunity to white families, but at the same time denied it to Black and Brown families, and it's time to own up to that.

Michael Klein

Bill Gayle in his presidential address to the American Tax Association pointed this out, and Bill was on a podcast, he had another podcast with us, in which he discussed those kinds of disparities and cited President Johnson, who said, it's not a fair race if somebody starts 40 yards behind.

Jeffrey Fuhrer

Right. Or if I was born in the baseball game of life on third base and think I'm a genius because I made it home, good to recognize what your advantages were starting out as a white guy. I think the good news in the investments that I cited, these investments that provide access to building financial and human capital, is that the estimates of the payback on those are tremendous in terms of improved incomes, healthcare outcomes, contributions to productivity, reduced involvement with criminal justice. So those are not zero sum, just zero-sum redistributions.

They're positive sum investments, and they have terrific paybacks. So from that perspective, they're just great investments for the country to make.

Michael Klein

Well, Jeff, reading your work in this area was really eye-opening for me, and I appreciate what you've done. I think it's very important. And I also appreciate that you join me once again on EconoFact Chats to talk about this important and compelling issue.

Jeffrey Fuhrer

Well, thanks for the opportunity to speak about it. It's always good to be with you, Michael.

Michael Klein

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