

The Supplemental Expenditure Poverty Measure:

A New Method for Measuring Poverty

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Abstract

We propose a new measure of the rate of poverty we call the Supplemental Expenditure Poverty Measure (SEPM) based on expenditure in the Consumer Expenditure survey. It treats household expenditure as a measure of resources available to purchase the minimum bundle necessary to meet basic needs. Our measure differs from conventional income and consumption poverty in both concept and measurement and it has advantages relative to both. Poverty rates using our basic measure are very close in level and recent trend to those of the most preferred income-based poverty rate produced by the Census Bureau. But our SEPM poverty rate differs from the Census measure at different levels of the poverty line. For example, that the number of individuals living in either poor or “almost” poor households is 5 percentage points greater (about 16 million individuals) using our measure. We also construct an augmented measure that adds additional potential liquid resources. This “maximal resources” measure indicates that if disadvantaged households used up all their bank balances and maximized their credit card borrowing, 9.6 percent of the population (over 31 million individuals) would still be poor and unable to purchase the goods necessary for the basic needs of life.

The measurement of poverty has drawn the attention of economists for many decades. Both the level of poverty and its trend over time are important social indicators of the economic well-being of the most disadvantaged members of the society. Estimates of how poverty is affected by government policy in general, and by specific anti-poverty programs in particular, are also important indicators of the influence of government on improving the well-being of its poorest citizens. Nevertheless, how to best measure poverty has been the subject of significant disagreement among researchers and policy analysts.

There is renewed interest in the measurement of poverty in the U.S. The Census Bureau has recently conducted a major study of its most preferred poverty measure (called the Supplemental Poverty Measure, which we call the SPM) and how it could be improved. The study has recommended that the basic structure of the measure be retained but that a number of technical improvements be made.¹ A federal interagency working group established in 2019 and charged with studying alternative ways to measure poverty recently issued its report and recommended that an additional measure of poverty based on consumption rather than income be added to the measures produced by the Census Bureau.² And the National Academies of Science, Engineering, and Medicine has formed an expert panel to spend two years studying additional improvements that might be made in the SPM, with the panel slated to issue its final report later in 2022.

To supplement this activity, our study suggests a new method of measuring poverty that could be added to the two that have received the most attention in these discussions. Those two are those that measure poverty by a household's income or its consumption. In both cases, the basic method is to start with some definition of the minimum bundle of goods that are needed to provide the basic needs of life. The "minimum bundle," as we shall term it, is ultimately socially determined because what it means to be poor is a subjective concept that is up to the members of society to define. Starting with that minimum bundle, an income measure of poverty asks

¹ <https://www.census.gov/topics/income-poverty/supplemental-poverty-measure/library/working-papers/topics/potential-changes.html>.

² U.S. Office of Management and Budget (undated). The Report is undated but was released in early 2021. <https://www.census.gov/topics/income-poverty/supplemental-poverty-measure/about.html>.

whether a household has enough income to purchase that bundle, while a consumption measure of poverty simply asks whether a households' level of consumption is sufficient to allocate enough consumption toward the goods in the bundle to meet the minimum. In the language used in poverty measurement, both involve measuring a family's income ("resources") or consumption to the "threshold," which is the amount of income or consumption needed to meet the minimum bundle. A household is deemed poor if it does not have enough to meet that threshold and deemed not poor if it does. The poverty rate is the fraction of the population living in households who are poor.

We argue that both income and consumption measures have conceptual and measurement problems. Since the early 1960s, the Census Bureau has published what is termed an "official" poverty measure that has been heavily criticized because it uses income before taxes and transfers, excludes in-kind poverty program benefits (e.g., Food Stamps), and ignores costs that reduce the household's ability to purchase the minimum bundle. It is also what is called an absolute poverty measure because the threshold has been held fixed in real dollars since 1963, which means that it does not pick up changes in how being poor is socially defined as a society develops. Use of absolute poverty thresholds also necessarily implies that, over long eras when general economic growth lifts real incomes across the income distribution, poverty rates must necessarily fall. While the magnitude of that ultimate decline is important to know, it presents an incomplete measure of socially-defined well-being, at best.

The Supplemental Poverty Measure was begun by the U.S. Census Bureau in 2009, motivated by an earlier Report of the National Academy of Sciences (Citro and Michael, 1998), which addresses many of the criticisms of the official measure and is widely accepted as superior to the official measure. It uses after-tax-and-transfer income, includes many major in-kind transfer benefits in income, and it subtracts certain costs from income as well. It uses a moving threshold based on how much it costs to purchase a minimum bundle of specifically defined necessities—food, clothing, shelter, and utilities—in the lower part of the expenditure distribution of those goods, and how that changes over time.

The conceptual problem with all single-period income measures is that they ignore the existence of spending out of assets and easily available borrowing like that on credit cards.³

³ This omission is intentional and fully understood by its designers (Citro and Michael, 1995, pp.71-72). It was argued there that current income is simply the best measure of resources and that assets are only a short-term resource.

Conventional wisdom is that the poor, because of liquidity constraints, neither save nor borrow, so using single-period income should be accurate. We will show that, while this is true for some forms of intertemporal transfers, it is not true of all, with credit card debt the most important. Current income does not fully represent the ability to purchase the minimum bundle if households can borrow to make such purchases, and we will show that low-income households appear to do just that. In addition to this conceptual issue, a well-known measurement issue with Census income-based poverty measures is that many forms of income, particularly government transfers, are underreported in the Current Population Survey (CPS), particularly government transfers, which will tend to bias poverty rates upward.

An alternative measure which uses consumption as a measure of well-being has been proposed (Meyer and Sullivan, (2012), following on work by Cutler and Katz (1991), and Slesnick (1993)).⁴ Many economists prefer consumption as a measure of poverty because it directly measures the flow of goods and services received by a household and therefore directly measures its economic well-being. It is also often regarded as a better measure of permanent income, which is frequently taken to be the best long-term measure of that well-being. And, in regard to measurement, measures of consumption typically use the Consumer Expenditure Survey (CE) which is regarded by some to better measure spending than the CPS measures income.⁵

Two flaws in consumption measures make it a poor indicator of poverty. One is that, as agreed by all economists, a correct measure of consumption should include service flows from home, vehicles, and other durables. Yet those service flows are completely illiquid and not usable to purchase, with cash, the minimum bundle needed to satisfy basic needs. The most important service flow to low-income families is from housing, for a large fraction (possibly 40 percent according to some estimates) own a home. But service flows cannot be used to purchase food or clothing, for example, which are in the Census Bureau's definition of the minimum bundle. A household with a large fraction of its total consumption in the form of service flows is

⁴ See Fisher and others (2009) and Fisher and others (2015) for additional estimates of consumption poverty.

⁵ The Panel Study of Income Dynamics (PSID) has now also developed enough spending measures to also construct a consumption poverty measure. A comparison of its spending data to that in the CE can be found in Insolera and others (2021).

arguably more liquidity constrained to buy the minimum bundle than a household with the same total consumption but which is financed entirely in the form of cash purchases.⁶

The other problem with consumption measures of poverty is again related to whether intertemporal flows are possible. On the one hand, if the conventional wisdom is correct that low income households neither save nor borrow, consumption should equal income, aside from measurement problems, and both poverty measures should produce the same poverty rate regardless of which is used because income equals consumption (Hurst, 2012). But if intertemporal flows are possible—which is usually implied by the economic concept of permanent income in the first place—then consumption flows over more than one period must be included since different households may allocate their consumption differently over time. For example, a family with income just below the poverty threshold may decide to borrow on its credit card for a major purchase, raising its consumption above that threshold, while another family with exactly the same income may choose not to so borrow. The first family will be counted as non-poor and the second will be counted as poor by a single-period consumption measure, even though they have the same income and same command over resources. One family simply chooses to allocate its income to consumption in different periods than the other family.⁷ Consumption in a given single period does not represent permanent income. In fact, income may be a better measure of command over resources if it is constant or fluctuating less than consumption.⁸

Our new poverty measure is intended to address both the conceptual and measurement issues with current income and poverty measures. Like most consumption poverty measures, we

⁶ In the poverty measurement literature, this is often called the problem of “fungibility,” meaning how substitutable some forms of income are for other forms of income. We should note, however, that the Census Bureau includes housing in the minimum bundle, so if service flows are sufficient to satisfy the minimum housing need, that portion of the service flow is not constraining. We will discuss this below, but other durables like vehicles and household appliances are not in the minimum bundle and hence imputing service flows to them is more potentially constraining.

⁷ See Citro and Michael (1995, pp.210-214) who noted this issue as well.

⁸ We would argue that most people’s intuitive definition of poverty is that it results from lack of resources, not because different families with the same resources make different choices on how to allocate their resources over time. **Error! Main Document Only.** We should also note that an old result from economic theory, called the theory of duality, states that well-being (utility) can be calculated either as a function of total resources available (using the so-called indirect utility function) or as a function of how those resources are spread across periods (e.g., discounted sum of utilities of consumption), and that the two are equivalent in their measurement of well-being. In this sense, a correct determination of available resources in each period makes an examination of consumption unnecessary and superfluous.

use data on household spending from the CE to construct our measure. However, unlike the consumption poverty concept, we consider how much a household spends to be a measure of its resources. So, for example, if a household spent \$2,000 in a month, from whatever source, we simply consider that as available to spend on the minimum bundle. Almost by definition, those monies could have been spent on that bundle instead of whatever they were spent on. Using total spending as a measure of resources also differs from consumption measures because the latter typically exclude spending on items that are regarded as saving and investment (e.g., cash contributions to pension plans or education and training expenses). From a resource viewpoint, those expenditures could have been spent on the minimum bundle and therefore were available to the family to have done so if they had wished, and should be included in a measure of resources available.

In an important sense, our measure is closer in concept to income poverty measures because both are attempts to measure the resources available to a household. For that reason, we term our poverty measure the Supplemental Expenditure Poverty Measure (SEPM), analogous to the Census Bureau SPM. But our measure of resources will exceed income if households make current purchases with credit cards that exceed their credit card debt payments, or by drawing down liquid asset balances, and will fall short of income if households save. If households do little of any of these activities, our expenditure poverty measure should produce poverty rates close to those of income poverty measures, apart from differing measurement error. In regard to measurement error, while many regard CE spending, in fact, to be more accurately reported, there is not as rigorous evidence in support of that assumption as one would like. There is indirect evidence that what underreporting there is in the CE is worse at the top of the income distribution (Bee and others, 2015; Sabelhaus, 2015; Dillman and House, 2013; Attanasio and Pistaferri, 2016). But there are no administrative or validated data to assess the accuracy of expenditure reporting the way there are for income reports, so most of the validation work compares total expenditure reports in the CE to aggregates in the National Income Accounts.

Like consumption measures, using expenditures in the CE also avoids many of the constructs needed for income-based measures. We do not have to estimate taxes and tax credits, as all income-based poverty measures have to do because survey respondents cannot accurately estimate their taxes. Expenditures are, by definition, after-tax. We also do not have to impute in-kind transfers like SNAP (Food Stamps) to households, as almost all income surveys have to do, because those transfers are already reflected in food expenditures reported by the household.

An important issue that has been insufficiently addressed in prior work on poverty measures but which we explicitly consider is that of liquidity. As we have already noted in our discussion of consumption poverty measures, service flows from physical assets and durables that are not part of the minimum bundle should not necessarily be considered to be available to purchase the bundle because of their illiquidity. But a similar issue arises if current spending is treated as resources and it includes current payments on installment loans for homes (i.e., mortgage payments and interest), vehicles, and other durables purchased in the past. It would be natural to regard those as commitments from past decisions and not available for purchasing the minimum bundle in the current period. However, income poverty measures implicitly regard them as available because those payments will generally come out of current income (that is, the Census Bureau does not deduct installment loan payments on cars, for example, from income to estimate available resources to buy the minimum bundle). Those installment loans are the result of past decisions and were therefore a matter of choice. A household could have chosen not to purchase a vehicle in the past and could have saved those monies to buy the minimum bundle in the current period. The transportation expenses in a single year are probably less than the purchase price of the vehicle, so not having purchased the car would presumably have made more funds available to buy the items in the minimum bundle net of the replacement expenses the household would have to incur. Should those past decisions and their effect on currently available resources be considered in developing a resource-based poverty measure? We will calculate poverty rates with and without some of these loan payments included in available resources as a sensitivity test.⁹

Liquidity is also important in the consideration of credit cards. Many observers see disadvantages to credit cards for low income households because those households often do not pay off their credit card debt immediately and hence incur onerous interest rate charges which will reduce available resources in the future, and may even default on their debt and harm their credit rating. However, low-income households subject to short-term negative consumption shocks (e.g., the car breaks down and needs a \$400 repair which must be paid to be able to drive to work) and negative income shocks should find credit cards of great value to address those shocks, given their lack of cushion in other dimensions. Including credit card purchases in

⁹ As we discuss below, the largest loan payments are those for housing. The Census Bureau SPM has a special treatment for housing which, as we discuss below, we will follow. This reduces the importance of the issue to some extent.

excess of repayments over a short period represents an important source of resources to smooth transitory shocks faced by low-income families.¹⁰

A final issue from our approach to using spending as a measure of resources is created by the implicit inclusion of spending from assets and credit card loans in our measure, since they are included in CE spending totals (but without separate identification). While we regard those as available to have been spent on the minimum bundle, it generates an inconsistent treatment between households that conduct this activity and those who do not. A household that draws down its bank balance to purchase the minimum bundle may be counted as non-poor while another household that has the same initial balance but does not draw it down might be counted as poor. Or one household may borrow on its credit card and generate total spending in excess of the threshold and not be counted as poor, while another does not so borrow and ends up being counted as poor even though they could have borrowed (this issue is similar to that we discussed before for consumption poverty measures). To address this issue, we also calculate a resource measure that includes the potential—but unused—asset drawdown and credit card borrowing the household could have made, thereby eliminating variation in discretionary choices on how much to spend in the current period. For assets, we only include available liquid bank balances in order to restrict our measure only to easily available resources (e.g., we do not assume they could sell their car or house) and we only include credit card borrowing—not other forms of loans the household might have available—because credit cards are the easiest and most liquid form of borrowing. This “liquid potential resources” measure will represent the maximum amount of resources that are easily available to a household to purchase the minimum bundle. This maximal resource measure will count as poor households who could not buy the minimum bundle even if they pulled out every possible easily-available resource they have to do so. It will consequently count as poor those who are even more resource-deprived than those counted as poor in our main measure.

We have a number of key findings. First, we find that our main SEPM poverty rates are very close to those in the Census income-based SPM when we use the Census Bureau’s SPM threshold. We also find that both have trended in approximately the same way (namely,

¹⁰ Although not specifically about poor families, the Survey of Household Economics and Decisionmaking (SHED) asks how families would cover a \$400 emergency expense. Of those who could not cover it with cash, credit cards are reported as the most common method (Board of Governors of the Federal Reserve, 2021). See also Fisher and Hardy (2022) on evidence on within-year volatility of consumption among the poor.

downward), at least since 2010. This perhaps unexpected finding—unexpected because underreporting of CPS income and drawdown of assets and credit card borrowing should all make our CE spending totals greater than CPS income and hence our poverty rates lower—is shown to be a consequence of the precise location of the threshold combined with the differing shapes of the CPS income distribution and the CE spending distribution. Underreporting of income appears quite likely because there are many more very (reported) low-income households than very low spending households. However, there is also a larger number of households with spending just below the threshold than there are households with income just below it. The two forces cancel each other out when the total number of households below the Census Bureau threshold are counted. But thresholds just below the regular poverty threshold have more income values below the line than spending values, resulting in lower SEPM expenditure-based poverty rates than SPM income-based rates, while the opposite occurs for slightly higher thresholds that include the “near poor”—there, SEPM poverty rates are higher than those using income by about 5 percent points. The latter implies that there are more poor or “almost poor” households by expenditure than by income.

Second, we find that poverty rates for many different demographic groups are quite similar between our SEPM poverty measure and income poverty measures, with differences in the rates of less than 1 percentage point. But we find some differences between the two poverty measures that are larger than that, depending on marital status, race-ethnicity, and education level. But the largest and most notable difference occurs for poverty rates for children, where our SEPM rates are up to 2 percentage points greater than income poverty rates since 2010.

Third, we find that government transfers have a large impact in reducing expenditure poverty, by up to 5 percentage points in some years. The impact is slightly less than that implied by income poverty measures. Finally, our Liquid Potential Resources measure shows, consistent with conventional wisdom, that the liquid asset balances from bank accounts for those in the lower portion of the expenditure distribution are quite small, and their inclusion in resources has only a small effect on SEPM poverty rates. But unused and potential credit card borrowing has a greater possible impact. We find that adding these potential resources could reduce poverty rates as much as four percentage points. However, 9.6 percent of households, equivalent to about 31 million individuals in 2019, could still not afford to purchase the minimum bundle even after using all possible liquid resources.

The paper has three sections. The first briefly reviews previous poverty measures in the U.S., with more detail than we have given in this introduction, and shows their trends reported in other work. We also describe the construction of our new measures. The second section presents our SEPM measure based solely on current expenditures and compares its level and trend to that using income measures. We also present some demographic breakdowns, including child poverty and poverty of the older population, and we show the impact of government transfer programs on poverty rates. The third section enlarges our definition of available resources and shows its effect on poverty rates. A short summary concludes.

I. Currently-Used Poverty Measures and the SEPM

We briefly review poverty rate estimates from current work on what is called the Official Poverty Measure (OPM), the Supplemental Poverty Measure (which we henceforth call the SIPM, with I for income to contrast with the SEPM), and consumption poverty. We then present a summary of how we construct the SEPM, with details left to an Appendix.

Figure 1 shows estimates of the level and trend of poverty using three different measures after 1990. The Official measure compares cash income before taxes and in-kind transfers to a threshold defined in 1963 as the amount of income needed to purchase a minimum level of food expenditure plus additional goods. It has been held constant in real CPI-U dollars since then. In addition to omitting in-kind transfers from income, it makes no adjustment for cross-area differences in the cost of living and uses a non-standard equivalence scale to adjust for family size and composition.

The interesting aspect of the trend in the Official poverty is how little it has changed over time, despite the expectation that poverty rates should eventually decline for any absolute poverty measure. While there are clear business cycle effects, the last value in 2018 is only slightly lower than that in 1990. In part this reflects the growth in wage inequality and the associated slow rate of growth of wages for unskilled workers. But its omission of taxes and transfers and in-kind benefits programs makes its poverty rates too high because taxes have declined for low-income families and transfers have grown over time.

The Supplemental Poverty Measure which we denote as the SIPM bases its threshold on a minimum bundle composed of food, clothing, shelter, and utilities, and on a measure of how much is spent on those four goods in the lower part of its distribution. The threshold is updated over time as expenditures on those goods rise in that lower part, intended to represent changing

social norms for where households are relative to others in the distribution of ability to purchase that bundle. This obviates the need for a price index because the threshold is defined in nominal dollars, but it implicitly picks up growth in prices of the goods in the minimum bundle. The income measure subtracts from gross money income an estimate of net taxes paid, which can be negative because of federal and state tax credits to lower income families, and it includes estimates of in-kind transfers received by each family (SNAP plus four others noted below). The SIPM also considers working families to incur work-related expenses, which are subtracted from income, as are child care expenses and any child support paid to a custodial parent outside the household. Somewhat more controversially, it subtracts from income a measure of medical out-of-pocket expenses, including health insurance premiums paid plus medical costs not reimbursed by insurance (Medicaid is otherwise ignored in the SIPM).¹¹ The SIPM also deals with homeownership by using a separate threshold for homeowners with mortgages, homeowners without mortgages, and renters, on the assumption that homeowner with mortgages need more income to purchase the rest of the minimum bundle and those without mortgages need less. It also adjusts the thresholds for a state- and metro-area level price index.

Given the dramatic differences in the way the SIPM is constructed from the Official measure, the surprise in Figure 1 is how little they differ in level and trend. The SIPM is slightly higher in level, which is not so much because of differences in the thresholds as because the subtractions from income outweigh the addition of tax credits and in-kind transfers (Fox and others, 2015). The two follow similar trends over time.

Consumption poverty estimates are less standardized and differ from study to study. Those shown in Figure 1 are drawn from Fisher and others (2015), which go through 2011.¹² The authors construct a measure of consumption which adds to nondurable spending an estimate of service flows from houses and automobiles. It also excludes expenditure items like educational expenses and pension contributions on the grounds that these constitute saving rather than consumption. The threshold used is the 2019 nominal Official threshold and updated over

¹¹ The total of these expenses is capped, partly because high income families may have high medical expenses that are mostly discretionary. The latest Census report describing the details of this deduction as well other details on how the SIPM is constructed can be found in Fox and Burns (2021). We should note that work is currently underway to address the knotty problem of including Medicaid and health insurance in the SIPM. See Korenman and others (2019) for an important contribution on that topic. The U.S. Office of Management and Budget (undated) also recommended that new measures adding health insurance be used to create an additional poverty index.

¹² Meyer and Sullivan (2019) has the latest consumption poverty series using their methodology, but they use such a different price index than other studies that it is noncomparable to those in Figure 1.

time for inflation with the CPI-U-RS. The consumption poverty series is lower than that of the income measures in the early years but declines at about the same rate through 2000. But after that, consumption poverty declines while income poverty rises. While consumption takes a large jump in 2010 (oddly, since that was the end of the Great Recession, not the beginning), its difference with the income series is dramatic.

The problem with the poverty rate estimates in Figure 1, and those produced in other studies, is that they differ in too many ways to make it possible to determine why they differ. There are three basic decisions required in the construction of any poverty rate: the choice of threshold, the definition of resources, and the way the two of them are updated for inflation. The Official poverty rate uses a fixed real threshold established in 1963, a narrow definition of resources, and updates with the CPI-U. The SIPM uses a threshold that is adjusted in real terms over time (generally upward), a more comprehensive definition of income, and implicitly uses a price index for food, clothing, housing, and utilities. The consumption measure uses a constant real threshold similar to the Official measure, it uses imputed service flows for durables, and employs the CPI-U-RS for price updating. Because none of these studies analyze which of these three building blocks is responsible for the differences in level and trend, the reason for their differences cannot be determined. One goal of our study is to compare our SEPM poverty series to that of the SIPM on a comparable basis so that we can determine exactly what difference is made by using spending instead of income alone.¹³

SEPM Construction. Our basic SEPM poverty measure uses consumer expenditure from the CE as the building block of available resources.¹⁴ We do not exclude any items that might be regarded as investment or saving because those could have been used, instead, to buy the minimum bundle and hence should be included in resources. We also include all down payments on durables in our expenditure measure, because the household could have chosen not to purchase the durable in question and could have applied that expenditure toward the minimum bundle instead. For installment loans, the CE only collects data on such payments for housing

¹³ Constructing a new consumption poverty measure is beyond the scope of our paper and is left for future work.

¹⁴ We note that the CE uses the word “outlays” for our measure. We use the word “expenditures,” which is more commonly used outside the CE.

and cars and not on those for any other durables.¹⁵ We include both in our measure of expenditures on the grounds that those are cash payments and are therefore liquid. We recognize that their inclusion could be objected to on liquidity grounds but, unlike service flows, they represent actual cash outlays that could in principle have been redirected toward the purchase of the minimum bundle if the debt had not been incurred in the first place.¹⁶ However, we include installment loan payments on houses (i.e., mortgage payments) in our expenditure measure for a second and independent reason, which is that this is required to be comparable with the SIPM treatment of housing. The SIPM recognizes the importance of housing to low-income families and that treating homeowners the same whether or not they have a mortgage, and the same as renters, misrepresents differences in implicit income and hence ability to purchase the minimum bundle (and housing is in the minimum bundle). On the grounds that estimating service flows is too difficult as a practical matter, given existing data and methods, the SIPM instead adjusts the threshold upward for homeowners who have mortgages and downward for homeowners who do not have mortgages on the grounds that the former group needs more income to be able to purchase the non-housing items in the minimum bundle and the latter need less. Thresholds for renters are adjusted based on average rents paid by lower-income renters, consistent with the notion of a socially defined threshold for low income households. With this adjustment of the threshold, mortgage payments must be included in any resource measure, including our expenditure construct.¹⁷ However, we conduct a sensitivity test to the inclusion of vehicle loan payments in spending, reported in the Appendix..

For credit cards, we have emphasized that purchases made with credit cards are implicitly included in the CE expenditure measure, although the respondents are not asked how many purchases are actually made with cards and hence those purchases cannot be separated from purchases made from other resources. In addition, the CE does not ask households about their

¹⁵ For other durables, such as refrigerators, dishwashers, and washing machines and dryers, for example, the CE just includes in spending the purchase price at the time of purchase and ignores whether they are purchased on credit.

¹⁶ Appendix A describes many of the details involved in implementing these decisions. The CE only includes purchase price for some durables, even if financed by a loan, which we can do nothing about.

¹⁷ See Fox and Burns (2021) for details. The threshold is adjusted only for the housing cost portion of the minimum bundle. Implicitly, this treatment subtracts from income any housing expenditures deemed necessary to purchase the housing portion of the minimum bundle, leaving remaining income to purchase the rest of the bundle (and other things, including more housing). We note that this treatment of housing therefore partly reduces the problem of putting illiquid housing service flows into income. A recent commission in the UK has also recommended that mortgages be subtracted from income for poverty measurement (Social Metrics Commission, 2020).

interest and fees on credit cards in every interview nor does it ask the amount by which households pay down their credit card balances. However, fortunately the CE excludes credit card interest, fees, and debt payments from its expenditure measure, so they are not counted in our expenditure totals. Since purchases made with credit cards are implicitly included in our spending measure, this means that any household which pays off its credit card balances every period will have no greater calculated available resources than a household which makes no credit card purchases; the net will be zero in the former case and exactly zero in the latter case. But households that make purchases in excess of their interest, fees, and debt payments will be implicitly regarded as having additional resources and the opposite will be the case for households whose new charges are less than their interest, fees, and debt payments. The annual time frame for our and most other poverty measures makes this an internally consistent approach.¹⁸

Because we want to make the SIPM our main poverty measure of comparison and want to have our measure as comparable to it as possible save for the use of expenditures in place of income, we adopt all other methods used by the Census in constructing that measure. We use the same thresholds as the SIPM, the same differentiation of those thresholds by homeowner and mortgage status (as already noted), the same type of geographic cost-of-living adjustments, and the same family size equivalency scale used in threshold construction.¹⁹ We also add to our expenditure total estimated amounts of the four in-kind transfers other than SNAP which the SPM adds to income and which are not recorded as expenditures in the CE: implicit rent subsidies to those in government subsidized housing who pay below-market rents, lunch subsidies received by school children, transfers in federal nutrition programs for pregnant women and mothers of young children, and energy assistance. We recognize that liquidity issues can be raised with these estimates as well and hope that they will be small enough in magnitude

¹⁸ If the net adds to zero across the population (i.e., the sum of new charges in excess of interest, fees, and debt payments equals the sum of new charges less those items), as will be the case if some households are net creditors and others are net debtors in different periods, then the impact of credit cards on poverty rate estimation depends only on the distribution of the two types of households in the region of the poverty threshold where households are moved either above it or below it by the inclusion of their net values in resources. We thank Henry Aaron for making this point.

¹⁹ We thank Caroline Hoxby for noting that low income families are members of networks that share resources and consumption, including family members outside the unit, neighbors and friends, absent fathers, and others. These networks could also be the source of some of the additional spending over income found in low income household data. Spending which arises from outside the family unit will be included in our measure of spending but would be excluded by an income-based measure.

as to not constrain the family in its ability to purchase the minimum bundle. Finally, we also, like the SIPM does for income, deduct from our expenditures work-related and child care expenses, child support paid, and capped medical out-of-pocket expenses, though all necessarily must be computed with CE data instead of the CPS. These “adjustments” are an important feature of the SPM poverty measure.²⁰

One issue with the CE worth noting is that the CE data are collected in quarterly interviews, not annual interviews like the CPS. In the construction of annual totals, the Bureau of Labor Statistics (BLS) treats each quarter as an independent observation and then averages them with weights to arrive at calendar year estimates. This approach contrasts with some authors who use only a subsample (e.g., Bavier (2014) who uses only the Q2 interview) or use only households that complete all interviews (e.g. Fisher, and others (2015)). If a sample of consumer units present in all four quarters is required, significant sample loss occurs from attrition, for about 45 percent of the sample leaves the survey. Further, attrition is non-ignorable because those remaining in the sample are more educated, more likely to be homeowners, more White, and more elderly, and thus less likely to be poor. Given the difficulties in correcting for attrition, we follow BLS in constructing annual expenditures from quarterly amounts but this may have some effect on calculated poverty rates because quarterly expenditure may fluctuate more than annual expenditure. In this case, our SEPM poverty rates may be higher than those from an annual measure like the SIPM to some extent. We leave this issue for future work.

Finally, we will construct a “maximal” estimate of resources by expanding the definition of total available resources to include liquid assets and potential “liquid” borrowing in our calculations. We calculate our measure of Liquid Potential Resources (LPR) as

$$\begin{aligned} LPR = & \textit{Current Expenditures} + \textit{Additional Available Liquid Assets} \\ & + \textit{Additional Available Liquid Borrowing} \end{aligned}$$

We use data on current savings and checking bank balances at the end of the year recorded in the CE to calculate additional available liquid assets.²¹ Calculating additional potential credit card borrowing is more difficult both for data and conceptual reasons. For those with credit cards,

²⁰ See the Appendix for details on the implementation of these procedures with the CE data.

²¹ The CE only collects these data in the last quarterly interview, so we must restrict our sample to non-attriting households for this calculation.

calculating additional borrowing potential requires knowing current balances plus credit limits on those cards, and the CE asks credit card balance information but not limits. We need to use other data for limits and impute those to CE households. Traditional credit card rating agencies have data on limits but not income, which is needed to identify low-income households. We use the Survey of Consumer Finances (SCF)—a representative survey of US households focusing on financial information--which has data on income, credit card usage, and credit card limits. We impute credit card limits from the SCF to the CE using methods described in the Appendix (which are based on income and age strata) and calculate unused credit as the imputed limit minus the balance reported in the CE. We impute to those who report zero CE credit card balances some fraction to have a card (the CE does not ask if households have a card), again from the SCF, and credit limits to those households, for whom unused credit equals the limit.²² Because of the large number of imputations necessary to construct unused credit, given the available data, our calculations should only be considered as suggestive.

We recognize that if the household were to draw its full potential in the current period, it will reduce its potential resources in future periods. It cannot draw those resources down period after period. But this is a consequence of the annual time frame used in most resource measures (including income poverty measures which include saving in resources). Annual time frame poverty measures ask only whether resources in a current year are large enough to buy the minimum bundle in that year, not whether resources over multiple years are large enough to buy the minimum bundle repeatedly. But an interesting extension of the standard annual measure would be to try to estimate the current value of assets and borrowing taking into account their impact in constraining future ability to purchase the minimum bundle, or, phrased differently, how available resources vary as the time frame lengthens.

II. Results

A. Levels in 2017-2019

Before comparing trends in our SEPM poverty rate measure to that of the SIPM, we present levels of the two measures averaged over our last three years of data, 2017-2019, to illustrate the building blocks for each and the nature of their construction (averaged over three years to smooth out short-term fluctuations in the measures). We also present a first major

²² Again, see the Appendix for details.

finding on the relationship between our expenditure poverty measure and income measures in this initial exercise.

Table 1 shows the building blocks for our SEPM poverty rate using the CE and the SIPM using the CPS for 2017-2019. The first rows present statistics on the distributions of gross CE expenditure and gross Adjusted CPS income.²³ In the whole population, CE mean and median expenditures are much lower than for income in the CPS, but this deserves little attention because it is the lower tails of each that are relevant to poverty measurement. However, an important result in the table is that the income distribution in the CPS has a much longer left-hand tail than the expenditure distribution in the CE, and the difference gets larger, the lower in the distribution one goes. The best explanation for this is simple underreporting of income in the CPS but, whatever the cause, it implies that poverty rates may differ simply because of this difference, as we now illustrate.²⁴

Figure 2 shows the two distributions graphically but in dollar terms and not percentile terms. A vertical dotted line shows the average SIPM threshold (approximately \$26,000 in 2019) so that poverty rates can be viewed as the fraction of the distribution to the left of that line. The most important difference, as suggested by Table 1, is that expenditures are much more concentrated in a mass just above the threshold, unlike the more dispersed income distribution. Because the density curves cross and hence neither distribution first-order stochastically dominates the other, the relative poverty rates of the SEPM and SIPM will depend on where the threshold is located. In Figure 2, it is not visually apparent whether expenditures or income have a greater fraction to the left of the line. But Table 1, showing gross SEPM and SIPM poverty rates, show that the percent of reported income observations below the threshold, 9.6 percent, is slightly higher but very close to the fraction of expenditures below the threshold, 8.9 percent. Thus, the differences in the distributions of income and expenditure below the poverty line almost cancel out.

As we noted above, the Census Bureau SIPM adds certain in-kind transfers to income and subtracts certain adjustments representing costs before calculating ability to purchase the

²³ “Adjusted” CPS income is that income after-tax and with the most important in-kind transfer—SNAP—added. This is a closer concept to CE spending than before-tax cash income and should improve comparability relative to using before-tax CPS cash income alone.

²⁴ We thank our discussants, Kathryn Edin and Luke Shaefer, for noting that the gap may not be entirely a result of literal underreporting of income and income transfers but rather partly reflecting the adoption of (costly) survival strategies by low income families to find ways to obtain more consumption in light of incomes too low to survive.

minimum bundle. What we term the Net poverty rate is that based on net expenditure and net income after these additions and subtractions. Table 1 shows the distributions of net expenditure and net income, in parallel to those for the gross distributions. Not surprisingly, we continue to find a longer left tail of net income than net expenditures, which should be the case if the in-kind transfers and deducted adjustments are roughly the same in the two data sets. The means of those in-kind transfers and deducted adjustments are shown in the lower half of the table, and shows that their means are not much different in the CE and CPS.

However, the relationship between the two poverty rates changes slightly when going to net expenditures and income. Both the SEPM and SIPM net poverty rates are higher than their gross counterparts because the deductions for cost factors are larger than the additions from in-kind values. However, the SEPM rises more than the SIPM (4.4 percentage points compared to 3.4 percentage points), resulting in almost an exactly identical net poverty rate for the two—13.3 percent for the SEPM and 13.1 percent for the SIPM. The major reason for the change is illustrated in Figure 3, which adds the distributions of net expenditure and net income to those for their gross counterparts which were shown in Figure 2. Both distributions are shifted to the left, but because of the greater mass of the gross expenditure distribution just above the threshold, more household expenditures are moved below the threshold than household incomes are, when netting out the cost factors.

The important lesson for poverty measurement is that the relationship between income and expenditure poverty rates depends critically on where the threshold is fixed. Since all observers agree that the choice of threshold is socially determined and has arbitrary elements, most observers think that poverty rates at different thresholds should be calculated. Figure 4 shows one such calculation, illustrating the importance of the threshold by showing net SEPM and SIPM poverty rates for what are called, in the literature, “Deep Poverty” and “Near Poverty.” The first is calculated as the fraction of the population which has income or expenditure less than 50 percent of the threshold, and the latter is calculated as the fraction of the population which has income or expenditure less than 150 percent of the threshold (approximately \$13,000 and \$39,000, respectively). The figure reveals that SEPM net poverty rates are lower than those for the SIPM when looking at Deep Poverty, but much higher than those for the SIPM when looking at Near Poverty. There is more SIPM Deep Poverty than SEPM Deep Poverty (4.4 percent vs 1.1 percent) but more SEPM Near Poverty than SIPM Near Poverty (32.4 percent vs 27.3 percent, a 5 percentage-point difference of about 16 million

individuals). There are very few households with extremely low expenditures but a large fraction of households with expenditures that still fairly low. There may be more households who are very poor by income standards, but there are also many households who are almost poor by expenditure standards. The latter group should not be considered particularly well-off in terms of economic resources.

B. Trends, 2004-2019

Trends in Gross and Net SIPM and SEPM poverty rates from 2004 to 2019 are shown in Figure 5. We show both Net and Gross rates since there are some differences between them, as there were in 2017-2019. The Gross SEPM poverty rate was approximately 11 percent in 2004, fell to about 8 percent in 2007, then rose through 2010 to about 12 percent (no doubt because of the Great Recession). It then began a gradual decline to a 2019 value of 8.7 percent (the decline coinciding with a general economic growth period in the country). The Gross SIPM poverty rate shows lower values in the 2004-2007 period, a somewhat sharper rise from 2007 to 2011, and then a sharper fall through 2019, ending at its final value of 8.8 percent, almost identical to that for the SEPM.²⁵

The difference in the measures from 2004 to 2010 has been noted before although not using quite the same income and expenditure poverty rates we calculate (Bavier and others, 2014; Wimer, 2014). The difference has not been resolved but the SEPM exhibits a pattern more consistent with the business cycle in this period—strong growth from 2004 to 2007 followed by the Great Recession from 2007-2010, which is consistent with falling then rising poverty rates—than the SIPM. However, from 2010 to 2019, both the gross SEPM and SIPM follow approximately the same downward trend on average. The economic growth over this period is the likely cause of both, together with expanded social safety net transfers. When moving to the Net Poverty rates, both the SEPM and SIPM shift upward, as already discussed, but the shift

²⁵ Our SIPM poverty rates are calculated from the public-use CPS historical files produced by the Columbia Center for Poverty and Social Policy. Those rates differ slightly from those produced by the Census Bureau since 2009. Our rates also differ slightly from those produced by the CPSP because we modify their procedures for medical and work expense imputations, geographic adjustments, and household weights, as described in the Appendix.

upward results in a similar pattern of time trends of each over the entire 2004-2019 period. Both continue to have declined since the Great Recession, as was the case for the gross measures.²⁶

Given the importance of the location of the threshold, we show trends in Deep Poverty and Near Poverty in Figure 6. The greater SIPM than SEPM rates for Deep Poverty has been present since 2004, and both show very flat trends with very little reduction in the rates. The lack of improvement in Deep Poverty rates is a result of a combination of declining labor market earnings at the bottom of the distribution and a decline in transfers going to the worst-off families. Near Poverty SEPM rates were not higher than those for the SIPM over the whole period but have been for most of it, and both show approximately the same declines since about 2010.

C. Comparison of Demographic Patterns

Table 2 shows SEPM and SIPM gross and net poverty rates in 2017-2019 for different demographic groups to determine whether the two measures yield different rates. Different poverty rates can arise for the same reason already noted, which is simply that the distributions of the two are different below the SIPM threshold and some groups may have more expenditures just below the poverty threshold than others. Differences in net poverty rates can also differ, in principle, if the values of the in-kind transfer additions, and/or the deduction subtractions, are different for some unknown reason in the CPS and the CE, although we have not found those to be dramatically different in the two data sets. Finally, the last few rows in Table 1 show that there are some differences in a few demographic variables in the CPS and CE.

Most of the differences in SEPM and SIPM poverty rates in Table 2 are not large by demographic characteristic, usually less than 1 percentage point and varying in which poverty rate is the higher. But there are a few differences that are more than 2 percentage points. Owners without a mortgage have over 3 percentage point greater net poverty rate for the SEPM than for the SIPM while renters have a lower SEPM poverty rate. SEPM poverty rates are lower for unmarried households than for the SIPM but the opposite is the case for married

²⁶ The uptick in the net SEPM measure in 2019 is largely a result of stagnant net expenditure spending in CE from 2018 to 2019 but a rise in the SPM threshold, resulting in higher poverty. The fall in net SIPM in 2019 reflects a significant rise in net incomes in ASEC from 2018 to 2019.

households.²⁷ Households with elderly heads and non-elderly heads have about the same gross SIPM and SEPM poverty rates. Black households, but also households with heads with an advanced educational degree, have lower SEPM poverty rates than those for income.²⁸

However, one major difference in the rates between the two measures is for children. Child poverty rates have always been calculated to be higher than those for adults by all poverty measures, because more children tend to live in poor families. Figure 7 shows trends from 2004 to 2019 in net SEPM and SIPM poverty rates for children and the elderly. While those for the elderly are, on average, quite close to one another, consistent with the 2017-2019 average result in Table 2, the SEPM child poverty rates are much higher than SIPM poverty rates since 2010. At their peak in the period 2010-2013, SEPM child poverty rates were almost 19 percent, about 2 percentage points higher than those using income. This reflects the greater concentration of expenditures of households with children just below the poverty threshold. However, child poverty rates have also declined over time.

Appendix Table A1 shows a comparison of the demographic characteristics of SIPM poor and SEPM poor, to determine whether they identify the same or different types of households as poor. The SEPM poor and SIPM poor are not, in fact, very different by the majority of measures shown in the Table. The few larger differences include a greater fraction of lower-educated household heads among the SEPM poor as well as larger family sizes. There are differences in how many homeowners have and do not have a mortgage as well. But these are the exceptions rather than the rule.²⁹

C. Impact of Government Transfers

Assessing the impact of government transfers with our expenditure measure requires assumptions not needed for assessing that impact with income measures. With income used as a measure of transfers, transfers represent a simple addition to income and hence a straightforward

²⁷ It should be emphasized that family size is taken into account in the determination of the thresholds, so they differ, for example, for single individuals and married individuals.

²⁸ Appendix Table A1 shows differences in various characteristics for the SEPM and SIPM poor. As expected, the SEPM poor have higher expenditures than the SIPM poor have income. There are a few demographic differences as well. For example, the SEPM poor have larger family sizes, and the household reference person has less education.

²⁹ As noted by our discussants, Kathryn Edin and Luke Shaefer, it would be useful to know how the two measures classify as poor families with particular material hardships, such as food insecurity, or defaulting on rents or mortgages or utility bills. Unfortunately, the CE does not have information on measures of hardship.

calculation of their impact on poverty rates can be conducted (ignoring behavioral responses). But for expenditure measures, an assumption is needed on how an increase in income is spread out across expenditures in different periods, as well as an assumption of whether drawdowns from liquid assets or credit card borrowing are affected. The simplest assumption is to assume that neither of the latter are affected by transfers and that all transfers result in increased expenditure in the current period.

With that assumption, Figure 8 shows the impact on net SEPM and SIPM poverty rates when transfers are removed. In the first case, we consider the impact on poverty rates of removing the in-kind transfers alone--SNAP and the four others discussed previously. In the second step, we consider the impact on poverty of removing cash transfers, which is primarily the EITC but also cash welfare and SSI (both smaller in magnitude than the EITC). Focusing on the period since 2010, we find that the removal of in-kind transfers raises both SEPM and SIPM poverty rates by approximately 3 percentage points, with no large difference, on average, between the measures. But we also find that removing cash transfers increases the SEPM less than the SIPM. Appendix Table A2 shows that the removal of SSI, cash welfare, and other in-kind transfers have a greater impact on raising SIPM poverty than SEPM poverty. In any case, however, Figure 8 shows that taxes and transfers to disadvantaged families in the U.S. make a major dent in poverty rates even with our SEPM, up to 4 or 5 percentage points.

D. Liquid Potential Resources

As described previously, we estimate a Liquid Potential Resources measure by adding available liquid bank balances and an estimate of available but unused credit card borrowing resources to obtain a maximal measure of resources and to estimate how many individuals would remain in poverty even after using all available liquid assets and credit. Table 3 shows the mean and median bank balances (liquid assets) at the final interview for households in the bottom quartile of the CE current expenditure distribution for 2017- 2019, shown separately by the three housing statuses employed by the Census Bureau in its threshold calculations, and also broken out by whether the household head is or is not over 65. Median bank balances are zero for those with heads under 65 and small for those over 65 but a fraction sometimes over half have a positive bank balance. Mean assets are small for those under 65 but quite large for some of those over 65, but this reflects a large upper tail of the distribution.

Figure 9 shows the impact of adding these bank balances to available resources on the SEPM net poverty rate, in level and trend. The rate declines by about 1.5 percentage point, on average. There is very little change in the impact over time from 2004 to 2019, reflecting little change in the amount and distribution of bank balances relative to total household spending.³⁰

Table 3 also shows estimates of unused credit calculated with two different imputation methods from the SCF, with little difference between them (see the Appendix). For the main method, median unused credit is again zero or small for those with heads under 65 but often sizable for households with elderly heads. Mean unused credit is again much higher than median values, reflecting right-skewed distributions, and is generally modest for the non-elderly but more sizable for the elderly. Figure 9 shows the impact of adding unused credit to resources in addition to bank balances (using the main method), showing that poverty rates are reduced by about 3 percentage points from this addition, a non-trivial reduction. Given the crudeness of the estimates, this is only a rough estimate but does establish the potential importance of the issue. Interestingly, the impact varies little over time, implicitly meaning that credit card non-utilization (in dollar terms) has not changed very much for lower income families.³¹ Nevertheless, the poverty rate even if all bank balances were used and all available credit were utilized is still 9.6 percent in 2019, leaving almost 31 million individuals still in poverty and without the resources to meet basic needs. This constitutes a particularly resource-deprived group of poor families.

III. Summary and Conclusions

This paper has proposed a new poverty measure that we argue has advantages over income poverty and consumption poverty measures. Our measure is based on observed, realized spending as a measure of the resources available to a household, either alone or supplemented with access to resources from bank balances and credit cards. We argue that it has advantages relative to income measures because it includes in resources spending from credit cards and spending out of liquid bank balances, and it is superior to consumption measures because it does not count illiquid service flows from housing and vehicles as resources and better accounts for households who allocate their consumption differently across years. Empirically, it is preferable

³⁰ Results (available upon request) omitting the elderly are very close to those in the figure.

³¹ The approximate constancy of unused credit is a result of offsetting fluctuations from year to year in the proportion with cards, the proportion of those with cards but zero balances, and the utilization rate.

to income if Consumer Expenditure survey expenditures are measured more accurately than income in surveys like the Current Population Survey. Our measure also has several practical advantages over income poverty measures because it does not require estimation of taxes, adjustments for underreporting of transfers, or the imputation of some in-kind transfers.

We implement our SEPM on the Consumer Expenditure survey data from 2004 to 2019. We find that SEPM poverty rates—based just on total household expenditures in a period—were nearly the same in 2017-2019 as those estimated with income data from the CPS. However, expenditure poverty rates depend critically on exactly where the poverty line is drawn because there is a large mass of low-expenditure households whose expenditures are just above the most widely accepted threshold used by the Census Bureau. Moving the poverty line up slightly to capture those households who are “almost” poor but not quite poor makes SEPM poverty rates 5 percentage points (about 16 million individuals) higher than those using income. Overall, we find that there are many more low-expenditure households in the U.S. than low-income households, in percentage terms.

We also assess the ability of households to escape poverty by drawing on available liquid bank balances and by using available, but unused, credit debt to finance purchases of basic goods. Many low-income households already do that, but some do not use all the potential borrowing they could. We find that bank balances are quite small and, when counted toward ability to escape poverty, make only a small difference in reducing poverty rates. But we find that available credit card borrowing could potentially lower poverty rates further by up to 3 percentage points. However, the arguably most important finding is that even if households were to draw down their liquid assets completely and completely max their credit cards, 9.6 percent of the U.S. population (about 31 million adults and children) could still not afford the set of goods necessary for the basic needs of life. These estimates are highly uncertain because of weaknesses in the data, and much more research is needed on credit cards as an available resource over a relevant time horizon before any definite conclusion can be reached.

We suggest that our work be considered only as a preliminary, initial investigation of our new conceptual measure. There are many data issues with the Consumer Expenditure survey that make implementation of our measure difficult, and better data are needed to implement what we regard as the best approach to measuring poverty. Further work should result in improved measures of estimated poverty in the United States.

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