EFFECT OF USING A POVERTY DEFINITION BASED ON HOUSEHOLD INCOME

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This paper describes the impact on the poverty count of moving from a poverty definition based on family or individual income to one based on household income.

The basic units in statistics on poverty are families and unrelated individuals. A family is comprised of all related persons who share the same residence; unrelated individuals are those persons who do not live with a relative. An unrelated individual may live alone, with a family, or with other unrelated individuals.

Under the current definition, the poverty status of a person who lives with one or more relatives is determined by the income of that person plus the income of those relatives with whom he or she lives. The poverty status of an unrelated individual who is 14 years of age or older is wholly determined by the income of that person (unrelated individuals under 14 years of age are excluded from the poverty universe). Under a definition based on household income, the poverty status of a person would be determined by the income of that person plus the income of any other persons with whom he or she lives. The change to a household-based concept would not affect the poverty status of persons who live alone or persons who live only with relatives, but it would affect the poverty count among unrelated individuals who do not live alone and among family members who live in a residence in which unrelated individuals are present.

There are good reasons for choosing families and unrelated individuals as basic economic units. Families exist as economic entities by virtue of traditional and legal bonds. Bonds between unrelated individuals who share a single residence are generally much weaker than familial bonds. This is so despite the fact that many unrelated individuals have strong ties to those with whom they live, e.g., unmarried couples who live together and regard themselves as a single economic unit, and families who consider the unrelated individual living with them as part of the family for economic purposes. Yet, although the bond may be weaker, households made up of unrelated individuals enjoy most benefits of economies of scale that characterize the economic situation of families. These benefits include the utilization of a single shelter, and the purchase and preparation of food in quantities.

Under the current definition, families and unrelated individuals over 14 years of age are classified as poor or non-poor by comparing their annual income with certain threshold measures. These threshold measures vary according to the size and composition of the family, the sex and age of the family head, and farm-nonfarm residence. For families, the poverty threshold increases as family size increases. An unrelated individual is a basic unit in himself, i.e., the size of the family is one. A household-based definition would simply treat all household members as family members.[1] As an example of the effect of a household-based definition, consider two households - household A and household B. Both are two person households containing one male and one female, but the persons in household A are related and the persons in household B are not. In 1974, the poverty threshold for the family in household A was $3,324. The poverty threshold for the male in household B was $2,658 and the poverty threshold for the female was $2,458. The combined poverty thresholds for the two persons in household B was more than 50 percent higher than the poverty threshold for the two person family in household A. Under the current definition, of course, the income of one person in household B does not affect the poverty status of the other person, i.e., one person in household B could have a very high income and the other person could still be classified as poor.

The poverty rate can be affected by changes in living arrangements and there have been significant changes in the pattern of living arrangements during the past few years. From 1970 to 1975, the number of households headed by a family member increased by only 8 percent while the number of single person households increased by nearly 30 percent and the number of households comprised of two or more unrelated individuals increased by nearly 50 percent. This latter arrangement, however, still represents a rather small proportion of all households. In 1975 there were 55½ million households headed by a family member, 15½ million single person households, and 1.6 million households comprised of two or more unrelated individuals.

The effect on poverty counts of a change to a household-based definition is shown in tables 1 and 2. Table 1 shows that, as of 1974, the number of persons in poverty would be reduced by about one and one-half million or by about 6½ percent if the family-based definition were replaced by a household-based definition. The change in definition would shift about one-half million family members and about one million unrelated individuals out of poverty.

The one-half million family members who would be shifted out of poverty represent less than 3 percent of all family members who are currently poor, but the one million decline in the number of poor unrelated individuals represents a shift of about 22 percent.

Table 2 shows that 887,000 unrelated individuals lived with families in March 1975. While 433,000 of these persons were counted as poor under the current definition, only 82,000 would be counted as poor under a household-based definition. The number of poor unrelated individuals who lived with one other unrelated individual would be reduced from 670,000 to 228,000 and the number of poor persons living in households comprised of

Table 1.—EFFECT OF USING A POVERTY DEFINITION BASED ON HOUSEHOLD INCOME ON
THE ESTIMATED NUMBER OF PERSONS WHO WERE POOR IN 1974

(Numbers in thousands)

Characteristic	Current definition	Household-based definition	Difference
Total number of persons in poverty..........	24,260	22,678	1,584
Total number of family members in poverty...	19,440	18,919	521
Total number of unrelated individuals in poverty....................................	4,820	3,758	1,062

Source: Special tabulation from March 1975 Current Population Survey.

Note: The number of poor families with whom one or more unrelated individuals lived was estimated to be 213,000 under the current definition and 76,000 under a definition based on household income. The difference of 137,000 was multiplied by 3.8 (the average size of poor families) to obtain the estimate of 521,000 family members who would be shifted out of poverty by a change in definition.

exactly three or exactly four unrelated individuals would be reduced from 234,000 to 37,000. In group quarter households (those with five or more unrelated individuals) the number of poor persons would be reduced from 198,000 to 126,000. The decline of one million in the number of poor unrelated individuals represents a reduction of almost 70 percent in the number of poor unrelated individuals who do not live alone.

Persons under 14 years of age who do not live with relatives are excluded from the poverty universe. They do not have family income, of course, and income questions are asked only of persons 14 years of age or older. Table 2 shows that there were about 229,000 persons in this category in March 1975. The application of the household-based definition to this group would place 34,000 in poverty.

The data show that a household-based poverty definition would make only a modest impact on the total count of persons in poverty, but would have a significant and probably growing impact on the poverty rate among unrelated individuals. It is not possible to make the generalization that a household-based definition is more equitable than a family-based definition. The issue depends upon the economic relationship between or among the household members. A possible approach would be the addition of relevant questions to the March Current Population Survey which would allow tabulations of data for spending units. The spending unit concept is subject to some ambiguity, however, because persons may share some basic expenses and not others. In the absence of information on spending units, it would be useful to periodically publish poverty counts based on the household concept.

FOOTNOTE

1/ In the special tabulations prepared for this paper, the poverty status of the household members was determined by comparing the combined

income of the household members with the applicable threshold. The thresholds varied by size of household, the sex and age or the household head, and farm-nonfarm residence. For example, the poverty threshold for a nonfarm household comprised of three unrelated individuals, at least one of whom was a male, was defined to be equal to the poverty threshold for a nonfarm family of three with a male head. If the combined income of the three unrelated persons in the household was less than the threshold, each of the persons was considered to be in poverty. If the combined income was at the threshold level or higher, none of the persons was considered to be in poverty.

Table 2.--POVERTY STATUS IN 1974 OF UNRELATED INDIVIDUALS BASED ON TWO DEFINITIONS; THE CURRENT DEFINITION AND ONE BASED ON HOUSEHOLD INCOME

(Numbers in thousands)

Unrelated individuals by age and composition of household	Total	Poor by current poverty definition	Poor by definition based on household income	Difference: current definition less household definition
Unrelated individuals 14 years of age or older............	18,872	4,820	3,758	1,062
Living alone..............	13,939	3,286	3,286	—
Males..............	4,918	840	840	—
Females..............	9,021	2,445	2,445	—
Not living alone..............	4,933	1,534	472	1,062
Males..............	2,938	755	253	502
Females..............	1,994	779	220	559
Living with families..............	887	433	82	351
Aged 14 to 17..........	88	86	9	77
Aged 18 and over..........	799	347	73	274
Males..............	507	181	51	130
Females..............	291	166	22	144
Living with one other unrelated individual.	2,832	670	228	442
Males living with a female..........	507	135	50	85
Females living with a male..........	507	211	50	161
Males living with a male..........	1,105	167	59	108
Females living with a female..........	713	160	68	92
Living with two or three other unrelated individuals...	749	234	37	197
Males..............	529	146	24	122
Females..............	229	87	12	75
Living with four or more other unrelated individuals...	465	198	126	72
Males..............	250	82	64	18
Females..............	215	116	62	54
Unrelated individuals under 14 years of age.........	229	(NA)	34	(NA)

595