## Understanding Regional Poverty: What is Poverty?

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This is the first of three briefs on poverty. The first addresses what poverty is; the second will identify the causes and characteristics; while the final brief will offer policy recommendation for Indiana.

## Introduction

The rate of poverty, its causes and effects play an important role in community development for the vast majority of U.S. counties and municipalities. Understanding how poverty is measured, the characteristics of individuals and families in poverty, the rates of change of poverty and what it does to a community and how it can be mitigated are important parts of the debate. This series of papers seeks to answer briefly some of these questions. We begin with poverty definitions and use Delaware County and Muncie, Ind., as examples. We then discuss the broad cause and effect of poverty and outline the steps that are currently undertaken to mitigate poverty in the region.

## **Defining Poverty**

International definitions of poverty focus on the amount of goods and services consumed by individuals daily. The definition of moderate poverty is consumption of goods and services equivalent to about \$2 a day. In 2007 a little more than one in four people worldwide lived beneath this poverty measurement. By international standards there are effectively no Americans in poverty. Thus researchers concerned with mitigating the effects of poverty have largely turned their attention elsewhere.

The definition of poverty in the United States focuses on income, not consumption. It is among the most arbitrary measures of poverty used by individual nations worldwide. It is based on income that is three times the cost of food for families of varying sizes. The USDA estimates the food cost annually.

This metric does not account for transportation or housing costs, education or health care costs, nor does it consider the empirical fact that families in the United States, even poor ones, spend a smaller proportion of their income on food today than in decades past.

A more significant problem with the poverty threshold is that it accounts only for income. Wealth and consumption are not counted. So, a family that owns a home and a car and has significant savings is treated exactly like a family that may have the same income but has no savings, no auto and rents living space. Also, such transfers as food stamps and other non-taxable public assistance are not included in an estimate.

We also do not make poverty distinctions across individuals during their lifecycles. During periods of human capital accumulation (e.g. college) and during retirement, incomes may be very low, even at or below the poverty level. While this has the modest effect of distorting concerns about individuals in poverty, it has much broader distortionary effects on regional poverty rates. For example the presence of a significant number of college students in a region could drive up the poverty rate. This hardly tells a meaningful story about poverty.

The distortionary influence of the poverty definition on regions was exacerbated with the 2006 poverty estimates by the census that included residents living in "group quarters." In past estimates, individuals living in prisons, military barracks, long-term care facilities and college dormitories were excluded from the poverty estimates. The earlier approach at least mitigated the effects of a large "non-local" population on poverty estimates within a region. The current approach means that communities that house large prisons, military installations, and colleges or universities will inevitably see large increases in their poverty rates.

It is difficult to estimate exactly the number of students in poverty. But, for a student to avoid the census definition of poverty, they would have to be living with a family above the poverty level or make a little more than \$10,000 per year in income. A comparison of the eight most impoverished cities in Indiana provides some perspective to this issue. In the following table we examine the top eight cities from the 2006 poverty estimate, match them to the county and the reported student population. From that we estimate the potential local poverty in each county. This is a rough, but useful illustration of how the census reporting can distort local perceptions of poverty.

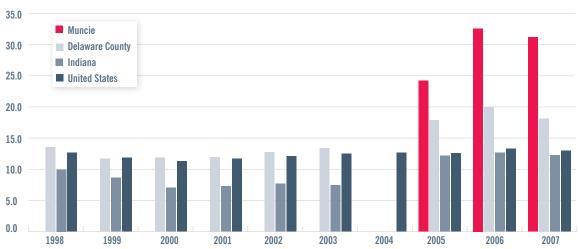
From these data we can surmise that a very significant proportion of reported poverty rates in Indiana's college towns are college students. A more detailed examination of Delaware County and Muncie reinforces this conclusion. In Figure 1 we examine Federal, Indiana, Delaware County and

City	Census Poverty Rate	University	Student Population	County Population	Potential Student Poverty	Local Poverty
West Lafayette	38.2%	Purdue	40,000	148,000	27.0%	11.2%
Bloomington	29.6%	Indiana University	39,000	120,000	32.5%	0.0%
*Gary (25.4), East Chicago	24.4%	IU-Northwest- Purdue Calumet	14,000	490,000	2.9%	22.9%
Muncie	23.1%	Ball State University	18,000	118,000	15.3%	7.8%
Terre Haute	19.2%	Indiana State University	10,500	106,000	9.9%	9.3%
Marion	16.9%	IUPUI, Butler	35,000	875,000	4.0%	12.9%
South Bend	16.7%	Notre Dame	11,600	266,000	4.4%	12.3%

<sup>\*</sup>Included as part of "the region" with East Chicago

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400

2003

2004

Muncie poverty rates. Please note they were not reported in 2004, and city estimates were not begun until 2004. This chart illustrates the close Federal and State poverty rates in recent years. Note however that Muncie, which has 6,000 students living in residence halls, has higher poverty rates than the nation or state. Beginning in 2006 the Census began counting both students living in private dwellings and group quarters. This caused a significant spike in reported poverty.

To contextualize the student impact it is useful to understand Muncie's specific demographics. The city has roughly 65,000 full time residents. An additional 10,000 students live in the city either in private dwellings (rented homes, apartments or with their families) with another 6,500 in dormitories. With the current (2006) poverty rate of 31.2 percent of city residents falling beneath the poverty line, this translates into roughly 20,250 persons. If we assume that 500 of the students live with their families locally, and another 1,000 make more than \$10,000 then we have about 15,000 students living in Muncie who are likely to fall under the Federal income guidelines that define poverty. This would leave only about eight percent of local residents in poverty.

In order to assess the validity of our estimate, it is useful to report other correlates of poverty, in an effort to observe a trend. Here, the number of families enrolled in the Temporary Assistance for Needy Families (TANF) is a good measure of regional change in poverty (See Figure 2). This measure suggests not only is there no broad increase in poverty, but there is a substantial decrease in the recent months (though the drop could be attributed to institutional factors associated with the program).

The relatively stable data on families receiving TANF is also apparent in longer term data on income inequality in the County as a whole. In the following graph we report the GINI Index for Delaware County in each of the decennial Census from 1970 through 2000. We also report the average Indiana and U.S. GINI Indices. The GINI index is a value that ranges from zero-100, measuring the distribution of income in a region. An index value of zero indicates that all persons receive equal shares of income, while an index value of 100 indicates that a single person receives all the earned income in the county.

This measure illustrates a much broader and slower changing income distribution in Delaware County than the nation as a whole, and far more similar to the State. There

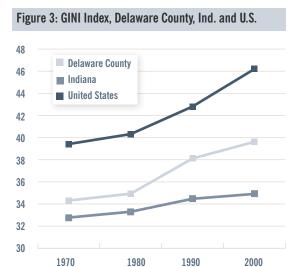
1,400
1,000
1,000
800

2005

2006

2007

2008



is no evidence from these data of a rapid change in the income distribution in Delaware County over the past four decades. In the end, it is not only apparent that there is no recent jump in poverty in Muncie it is altogether possible that when students are removed from the mix, the city is experiencing poverty rates substantially below the national level. So while we may not see our poverty levels increasing, poverty does exist in our community and we need to understand its causes before we can address reduction. That will be the subject of the next poverty brief.



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Research in the Bureau encompasses health care, public finance, regional economics, transportation and energy sector studies. In addition to research, the Bureau hosts the Executive Economic Exchange in Indianapolis four times a year, and also serves as the forecasting element in the Muncie area—hosting five state and federal economic forecasting roundtables.

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