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The Sequential Costs of Poverty: What Traditional Measures Overlook

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This research note proposes an addition to the poverty measurement debate. Motivated by dissatisfaction with the official poverty measure, which many scholars and practitioners share, we propose the use of sequential costs of poverty to enrich the poverty measure so that it might capture more closely the life-experiences of low-income families. After presenting some background on poverty measurement, this research note explores the conceptual framework that surrounds the notion of sequential costs. Drawing on our past research, we propose ways in which these sequential costs surface, with illustrative examples from health, employment, housing, and income maintenance.

Keywords: poverty measurement, low-income, latent and sequential costs of poverty

Background on Poverty Measurement

Devised by the Social Security Administration in the mid-1960s, the U.S. poverty threshold is computed as three times the USDA thrifty food budget. Families whose income falls below that threshold are considered to be poor. The threshold includes adjustments for family size but otherwise is essentially the same for all families across the U.S. This official poverty line was never intended to be a long-standing measure of poverty. Even creator

Mollie Orshansky assumed that it would be updated (Orshansky, 1965). Some of the most common criticisms associated with the official poverty measure are that:

- It does not account for geographic variation in cost of living. The poverty line in New York is the same as in Mississippi despite the observation that a dollar goes much further in Mississippi.
- It was based on 1950s consumption patterns, which have changed substantially, such that food may no longer account for one-third of a family's expenditures (Bernstein, Brocht, and Spade-Aguilar, 2000).
- Although the poverty measure adjusts for inflation, it does not account "for the increases in real family income and consumption by children" (Lichter, 1997, p. 124).
- It does not account for in-kind (non-cash) public assistance, such as food stamps, housing or health assistance, which have grown markedly in the past four decades. The implication is that those who receive these sources of assistance may be less poor than they appear by a cash income measure alone.
- It does not account for the costs associated with working, such as child care, which, when considered, would make working families more often appear poor.
- It does not account for taxes, both payments and receipts (credits), which have wide state variation.

In addition to these common critiques, other problems with the measure also have been identified. According to some (*e.g.*, Lichter, 1997), the official poverty measure does not equalize adequately for family size despite existing variation in the poverty line by family size and structure. For instance, it does not account for the growing share of children being raised by single parents with cohabitating partners whose incomes are not included in the official measure (Manning and Lichter, 1996). Although these sources of income might make some families appear less poor, there is no guarantee that resources from cohabiters will be used to benefit children. In other words, the official poverty measure "implicitly assumes that parents' resources are invested in children—biological, step, noncustodial—in an equitable or altruistic way (*i.e.*, equally according to need)" (Lichter, 1997, p. 124). Recent

work of ours has argued that, even more so than work expenses or payroll taxes, there are other, yet unmeasured costs associated with being low-income (Peck and Segal, 2006). If these “latent” and “sequential” costs would be accounted for, then more low-income families would be considered poor and we would have a better understanding of their true needs. We assert that, for several reasons, the official poverty measure underrepresents the proportion of families experiencing income hardship. Although the poverty measure’s limitations are widely cited (e.g., Citro and Michael, 1995; Haveman et al., 1988; Ruggles, 1990), it is still commonly used because scholars and policy makers alike understand it, and it has been consistently measured over time. Alternative measures are used but often only in addition to, rather than as substitution for, the official poverty measure (U.S. Department of Health and Human Services [DHHS], 2004). Real headway on the revision of the official poverty measure came in the 1990s with the National Academy of Sciences report (Citro and Michael, 1995), which was followed by the U.S. Census Bureau’s expanded use of what it calls “experimental” poverty measures to gauge well-being by measures more inclusive than money income alone.

Income poverty—whether measured by the official poverty line or some alternative—may still be insufficient to capture family and child well-being. In turn, some researchers have explored approaches to measuring and testing “hardship” indicators (e.g., Beverly, 2001; DHHS, 2004; Mayer and Jencks, 1989). Although income poverty and hardship have been shown to be correlated, there is not a perfect overlap. For example, among a Chicago sample in the 1980s, Mayer and Jencks (1989) found that income explains just 14 percent of the variance in material hardship. While measuring hardship is perhaps more desirable than measuring income poverty—because it may more closely capture real deprivation or well-being—it is a difficult task because of the large variation in possible measures.

Sequential Costs of Poverty

As noted above, we propose that previously unmeasured costs of being poor can be classified as *latent* and *sequential* (Peck and Segal, 2006). Latent costs are hidden, underlying or unac-

known costs of having low-income. Sequential costs are consequential; they are those costs that come as a serial outcome of being low-income, may result in lost opportunity, and have subsequent cost implications. This section describes the framework we use to develop these concepts and fit them into the existing debate on poverty measurement. Two main reasons compel studying the latent and sequential costs of poverty. The first reason is to enable understanding the important lifespan issues—both to individuals and to society—associated with poverty's varied costs. The second reason is that we, as a nation, demand of people living in poverty that they achieve certain outcomes, but those outcomes are limited by structural costs that may prevent achieving them.

The two concepts of latent costs and sequential costs of poverty are intertwined. Latent costs are always there: simply being poor limits a person's life outcomes. Sequential costs affect outcomes that surface as a result of poverty. One latent cost of childhood poverty stems from living in a poor community where the schools are underfunded and overcrowded, a widely documented condition (Kozol, 1991; Phillips and Chin, 2004). The impact of this latent cost of poverty surfaces throughout a child's lifetime, resulting in sequential costs. The sequential costs of a poor education are lower abilities in reading, writing, and math, making a person both less likely to pursue further education and less marketable in the employment arena. These limitations reduce lifetime earnings as well as access to broader opportunities for a child who grows up poor. The long-term implications of these sequential costs of poverty are cumulatively significant.

Although not a new sentiment, the attitude that people who are poor must strive toward economic self-sufficiency gained widespread publicity during the 1990s, first with the Contract with America proposed by Congressional members in 1994 and then codified into law with the passage of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. One of the key purposes of this act is to "end the dependence of needy parents on government benefits by promoting job preparation, work, and marriage" [Section 401 (a) (2)]. Embodied in that sentence is the powerful belief that poor people using government cash assistance are dependent and can be cured of this

dependency through work and marriage. If this is the end result desired by policy-makers and the American public, then we need to unravel the steps that led people to become dependent on government benefit programs to begin with. Analyzing sequential poverty provides the framework for understanding this pathway. The path of sequential poverty can be intricate and differs for various kinds of people. This means that the end goal of economic self-sufficiency requires the “undoing” of sequential poverty. Therefore, it is imperative that we explore the pathways of latent and sequential poverty.

Sequential Costs in Action

To illustrate what these sequential costs of poverty actually are, we draw on interviews from a recent qualitative study with working poor and welfare reliant individuals, couples and families in the Phoenix, Arizona, metropolitan area. Using a purposive sample drawn from local social service agencies, the in-depth interviews were conducted during Summer 2003 and followed a semi-structured guide designed to elicit discussion about costs of living in the following areas: migration, work, income maintenance, money matters, transportation, health, housing, and legal issues, among other topics. The resulting 458 pages of narrative text comprise the study’s data set. More information on study methods and sample are available in Peck and Segal (2006).

For this research note we select one example of sequential costs in each of several key areas. These examples are not intended to be representative of the lives of all poor people; instead, they provide at least initial evidence that some families experience what we have termed the “sequential costs” of being low-income. Each example is intended to demonstrate how the new concept of sequential costs might operate in four key areas—health, employment, housing, and income maintenance—of the lives of people living in or near poverty.

Health

Within the health arena, one example that illustrates how sequential costs operate comes from a research participant’s dental

care experiences. In our research, one couple described that dental coverage through Medicaid was insufficient to meet their dental health needs. Specifically, they state that Arizona's Medicaid program, AHCCCS,¹ pays for "extractions and stuff; I've had a couple of extractions." That experience is similar to another study participant who notes that he "didn't have a choice" when it came to how to treat a dental problem that called for a root canal, which AHCCCS does not pay for; instead, he had his tooth pulled, a procedure that AHCCCS would pay for, regardless of whether it was appropriate or ideal for his specific circumstance. In contrast, any other (non-poor) person who was in need of a root canal most likely would get the root canal rather than being restricted in choice—because of the insurer's preferences and limitations—that might cause future problems.

The sequential costs inherent in this example involve jeopardized dental health due to a lost tooth (instead of a fixed tooth) and the related future health complications and costs. A tooth extraction relative to a root canal is less expensive in money terms, but longer-term problems arise. For instance, teeth around the extraction site can shift and may erupt further. The underlying health problems are mirrored by aesthetic problems and related implications. That is, many low-skill or entry-level jobs, such as service jobs that require interaction with the public, become limited to people with visible dental health problems. As such, a sequential cost of such a tooth extraction is limited employment opportunities. These costs exist because these families have low-incomes. Though the costs to the insurance company to perform an extraction are smaller in the short-term, greater costs, both to the individual and to the health insurance provider, associated with not saving a tooth arise in the long-term.

Employment

It is widely acknowledged that many low-paying jobs are unstable and unsupportive (Mishel, Bernstein, and Allegretto, 2005). Evidence from our research reveals the ways in which this is true for some people and how those types of jobs carry with them sequential costs for workers and their families. The husband in one couple in our research study cycles between holding industry jobs and being self-employed. He really likes his chosen line of

work—stereo installation—but when he installs independently, his pay is irregular and he is without health insurance. When he works for an employer, he has lower but more stable income and often also has health insurance. The tradeoff is that he is happier working independently. To make up for the income instability, the wife sometimes works as the lunch coordinator at her son's school, but she is embarrassed about being the "lunch lady." This couple is markedly more stable than most of the people in our research, yet they still report getting about \$250 per quarter in financial help from her parents, and they lost their house after a chance birth defect (during a period of no health insurance coverage) caused them to fall more than \$50,000 in debt. Added costs of his line of work include paying for ongoing certification to be an audio and mobile installer, and, similar to many such low-paying jobs, his employer does not reimburse such expenses despite their being prerequisite to the job.

Embedded in this employment example are several instances of sequential costs. The lower self-esteem that comes from being in a job that one perceives as menial has implications for parenting; likewise, the stress associated with shifting between freelance work and more traditional jobs has psychological consequences as well. Research has shown that parenting is worse among those who face financial stresses, resulting in poor children experiencing greater levels of physical abuse than their non-poor counterparts (Conger and Elder, 1994; Kruttschnitt et al., 1994; McLanahan and Sandefur, 1994). Although this family did not demonstrate that abuse was occurring, there was a period after one child's birth that the mother had a breakdown related to financial stress and relied heavily on her mother and others to care for her children. This makes clear that the long-term consequences of having unstable work are costly—both financially and emotionally—for families who experience them.

Housing

Shelter is one of the more fundamental needs that humans have. In the U.S., we have tied our "American Dream" to home ownership such that housing holds deep meaning as well as security. Furthermore, housing is one of the larger expenses that families have, and, as such, those with low incomes often face

challenges in meeting this need. While the challenge itself is often simply financial, there are repercussions that occur increasing the already relatively high costs of housing. One couple in our study has \$600 in income per month, but their rent is \$609 per month. They had been homeless in the past and this imbalance in income and expenses threatens homelessness again. Even families whose rent is less than their monthly income face other problems with housing. For example, initial costs—such as security deposits in rental housing or down-payments for buying a home—are prohibitive for low-income families. The higher levels of housing turnover that low-income families experience puts them at additional risk for losing money otherwise tied up in a security deposit.

Further, having housing is not only about having a roof over one's head, but it also requires furniture, which has posed a problem for several people in our study. Common problems that have sequential cost implications include renting furniture, buying furniture on layaway or simply going without furniture. One research participant reported sleeping on the floor at the time of our interview because she did not have a bed or couch to sleep on. Another research participant reported that the beds she bought for her daughters would have been \$200, but, because she purchased them through a rent-to-own store, she ended up paying \$800 for them. She reported feeling cheated by having to pay four times the amount simply because she could not pay for them all at once. More importantly, these added costs mean that she was not able to save that money or use it for other, perhaps more valuable, purposes. These examples illustrate how housing—getting into housing, maintaining housing, and furnishing—can all have sequential costs that burden those who are poor even further than the money costs alone.

Income Maintenance

In the area of income maintenance, many categories of sequential costs exist: accessing banks and general money management result in sequential costs. When people have low incomes, they are systematically restricted from accessing mainstream financial institutions, and the implications are far-reaching. People who can not maintain a minimum balance at a bank must pay fees for

the bank to hold their money. This means that, as a percent of their income, people with low income—by virtue of having low income—pay more to have bank accounts. Some people in our research report being “blacklisted” because of having bounced checks in the past, and this additionally prevents them from establishing a bank account. In instances when people do not have a bank account, they face other costs. For example, many participants in our study either purchase money orders to pay their bills or deliver payments in cash. Purchasing money orders costs more, and the time (and therefore money, at least in terms of opportunity costs) required to hand-deliver payments costs more as well. The examples described here pose a challenge for almost all of the participants in our research.

Although the daily inconveniences and costs are important—perhaps we all face some of these, regardless of income—even more important are the sequential costs that follow for low-income people in particular. Specifically, not having a bank account or having bad experiences with financial institutions means that people do not build credit, which is necessary for long-term security, such as being able to secure a mortgage to buy a house and thereby build equity and assets. Several research participants in our study have poor credit, primarily because of their low incomes, and therefore report having to pay for goods up front and having no resources or credit available in emergencies. Poor credit also means paying higher interest rates, which therefore means that the same car, for example, costs more to someone who is low-income than to someone who is not. With little or no demonstrable credit, people in our study use check cashing services for loans to pay bills in emergencies; but these loans have extremely high interest rates. One example from our research was \$60 every two weeks on a \$300 loan; this is a 20 percent bi-weekly interest rate, which translates to 520 percent annually. Such high rates mean that repayment can be a daunting and lengthy process and may serve to damage credit even further. These sequential costs arise because of being poor and make it, in fact, more expensive to have very little money. These added, sequential costs create a situation in which a person pays more for daily transactions meaning that even less is available to save for longer-term income security.

Discussion and Conclusion

We identify clear examples of sequential costs related to health, employment, housing and income maintenance. David Shipler's recent journalistic chronicling of the lives of America's working poor reported that: "a run-down apartment can exacerbate a child's asthma, which leads to a call for an ambulance, which generates a medical bill that cannot be paid, which ruins a credit record, which hikes the interest rate on a car loan, which forces the purchase of an unreliable car, which jeopardizes a mother's punctuality at work, which limits her promotions and earnings capacity, which confines her to poor housing" (2004, p. 11). We have identified sequential costs within each of four arenas, but this quote from Shipler's work reveals that costs in one area have implications in other areas as well.

The intent of this research note is to identify conceptually and practically the sequential costs of poverty. These costs have been yet unmeasured in determining whether one falls below the official poverty line, yet we believe they are important because of the implications that exist for people's well-being. That is, a family might be considered non-poor according to the official poverty measure, but when the added, sequential costs of their life activity are taken into account, they would fall below the poverty threshold. These sequential costs are similar to other kinds of costs that the debate over the official poverty measure has concluded are relevant. For instance, the costs associated with work—such as child care, transportation, or uniform costs—are increasingly recognized as expenses that should be netted out of families' income in order to determine their poverty status.

This new category of costs—sequential costs—is important for understanding more fully the experience of poverty, with implications both for how we measure poverty and how we address the outcomes of poverty. This is important because of the consequences of living in poverty for children. Children who grow up in poverty have not only impaired physical growth and impaired cognitive abilities but also impaired social functioning (exhibited in greater levels of depression and behavioral problems) (Hill and Sandfort, 1995; Korenman et al., 1995). As noted above, abuse

may be greater among children living in poverty (Conger and Elder, 1994; Kruttschnitt et al., 1994; McLanahan and Sandefur, 1994). These relatively short-term consequences have long-term implications, and these long-term implications are what we are terming "sequential costs." For example, in the longer term, children from poor families are less productive as adults, both in terms of earnings and hours worked and welfare use (Duncan et al., 1994; McLanahan and Sandefur, 1994; Zill, 1993), which means that they earn less over a lifetime, a sequential cost of their earlier experience. In Lichter's (1997) words, "The effects of high rates of economic deprivation among today's children may only be fully realized by tomorrow's adults" (p. 122). In general, poor families report higher levels of material hardship (Federman et al., 1996), and these hardships have important consequences for children's well-being. Although above we have discussed mainly the sequential costs for adults and families, this discussion here identifies how past research has focused on the longer-term sequential costs of poverty for children.

Furthermore, understanding the sequential route of poverty can help in promoting the desired outcomes of economic well-being. Simply demanding that people find jobs ignores the sequential pathway of how they came to be in poverty. Perhaps a better way to deal with poverty is to address the sequential steps that led to impoverishment.

Future research on the far-reaching implications of this proposed view of poverty might include quantifying the sequential costs in a variety of ways. One possibility is to quantify some of these sequential costs more specifically than we have done here. Doing so would be useful because they could then be integrated more fully into an alternative poverty measure and help to develop alternative ways to address poverty. In addition, not only do sequential costs accrue to individuals as described here, but they also accrue to institutions and the community. An exploration of the community and institutional costs would be worthwhile and in line with other efforts to contain the costs of providing public social and health services. Understanding the complexity and sequential nature of impoverishment can lead to new ways to measure poverty and to address and prevent poverty.

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Note

1. Arizona's Medicaid program is the Arizona Health Care Costs Containment System, AHCCCS, which is commonly pronounced as "access."