

Summary of Week 2 Reading Responses

April 6, 2022

High level summary of comments:

- Several questions about measurement of poverty given intertemporal consumption decisions. What assumptions are we making about lifetime optimizing behavior? Wouldn't borrowing decisions be related to expected future earnings? How to address the fluctuation of consumption over time?
- Some skepticism about the way the authors use credit limits.
- Can we fix old consumption-based measures (e.g. by averaging over time) vs focusing on expenditure surveys? Some worry that there may be misreporting in the expenditure surveys as well.
- Conceptual questions about whether the different measures considered in the paper map to different conceptions of poverty. What policy solutions might each of these entail?

1 Selected Student Questions / Discussion

- **Raman Chhina**
 - Worries that credit card limits are not a good proxy for capturing intertemporal consumption smoothing. For example, a person with the same credit limit who was unemployed vs. employed at the time of the survey may have very different future outlooks and poverty statuses.
 - Worries about selection bias in the population that has a credit card, which would then affect the credit limit constructions the authors undertake.

- Sees not measuring taxes and transfers as a drawback of the proposed measure. “The distinction between the earned income and income from benefits is an important distinction to understand the nature of poverty in an economy.”
- **Victor Gamarra**
 - “I do not share the proposal of the authors to consider as expenses the liquid assets or bank balances (the Liquid Available Resources), as it is money that the household does not possess. I would argue that including credit card consumption would be a better way to account for debt consumption.”
- **Clara Kyung**
 - Wishes the authors had better emphasized that each of the different measures are tied to different conceptualizations of poverty. A related question: “which poverty concepts are useful for answering which questions?”
 - “What assumptions do the authors make about households’ optimizing behaviour, if any, when they create their poverty measure? If a household is classified as poor because they are not allocating their resources optimally (perhaps because of a lack of information), should they be classified as poor?” Notes this question is important for understanding whether reallocative policies vs information dissemination are better solutions.
 - Interested in understanding how inequality measures change after accounting for liquid available resources. Generally interested in how liquidity concerns affect a family’s ability to provide basic needs for the household.
- **Hugo Lopez**
 - Notes that FM consider consumer durables like cars and houses but thinks that there are more common items like “consumer electronics, clothes or furniture which present much smaller liquidity constraints.” If the depreciation rates of these durables is smaller in poorer households, this might overstate poverty.
 - “If we take the sampling issues at face value, then it contradicts many of the findings in the partial insurance literature which state that consumption and income move very closely in the lower end of the distribution as they have a smaller ability to smooth permanent income shocks. However,

it is also possible that there is a secondary mechanism driving the threshold sensitivity and that is the difference in household size, in particular the presence of children.”

- Highlights the part from the Meyer response that many poor people have consumer durables, so they may actually be able to smooth consumption via this channel and the “credit card borrowing mechanism might actually be much smaller than FM consider in the greater picture”

- **Philip Monagan**

- Notes that savings in a given period might be based on expectation of future earnings, so “By counting savings as consumption for each time period, the authors systematically overstate lifetime consumption and understate the true level of poverty experienced by the household.”
- Doesn’t believe the lower and upper bounds on credit limits because “the authors assume that existing borrowing is unrelated to credit limits.”
- Notes the authors do not explain why consumer expenditures might be more accurate than income in the CPS.
- Interested in extending the analysis to multiple time periods. “An interesting question would be: how many periods do households spend unable to purchase the minimum bundle of resources?”
- “How does the adoption of the Fitzgerald and Moffitt measure affect mobility between states of poverty over time?”

- **Xiaoyun Tang**

- Worries the Consumer Expenditure Survey is also not accurate.
- Notes there may be fluctuation of consumption over different periods. “Maybe a long-term and multi-period survey data can tackle this problem, but how long should that be?”
- People with the same credit limits may still respond differently and choose to borrow/spend differently.
- “The poor might borrow money in a less rational way than the rich, would this be sort of discrimination on the poor?... In terms of rationality, how to measure it?”

- **Miguel Valenzuela**

- Would have liked to see a better analysis by demographic groups (minorities/women/children/urban vs. rural/LGBTQ).
 - “How has the exorbitant cost of education, medical care, and the increasing cost of living exacerbated the concentration of poverty in urban centers, and how effectively have liberal states been able to address the factors that lead to an increased poverty rate in the US over time?”
- **Ruoxuan (Rebecca) Wu**
 - Worries that borrowing through informal networks (friends and family) would be undercounted here and might be especially important for poor households.
 - Proposes averaging consumption over time as a way to address the limitation the authors’ cite with the consumption-based approach.
 - “It is not clear to me what the authors mean by saying that service flows from large durable goods are illiquid for low-income households.” Notes that households would not buy a durable good if they could not afford maintenance for it.
- **Xiaoqi Zhou**
 - Notes the CE data is collected quarterly but as a result experience a lot more fluctuation than the annual CPS data.
 - “There is a large mass just above and below the poverty threshold. Will this be a consideration that the researchers should investigate data manipulation?”
 - “How does the decreasing fertility rates affect the measure of poverty rate?”
 - “Is there any way to make adjustment for the issue of underreporting income in the CPS so that we can have a more accurate income poverty measure?”