WORKOUT 4 Budgeting a Poverty-Level Income

As this introduction is being written, two interrelated dialogues are taking place in our nation's capital. The first one, about welfare reform, centers on the question of how best to move people who are on welfare—a term that usually refers to the Transitional Assistance to Needy Families (TANF) program (formerly AFDC), whose beneficiaries are mostly women and their young children)—from **dependence** to **self-sufficiency**, the latter of which is usually defined by politicians of all stripes as a lack of need for governmental income supports. The second dialogue, narrower and more likely to be quickly resolved, focuses on the minimum wage and the question of whether it should be raised, over some period of time, to a level closer to the **poverty line**.

What is the poverty line? This is an important question, with implications for both of the policy debates noted above. Briefly, the term is used to define the uppermost income threshold for families defined as being "in poverty." Although many have argued that the federal government should use a "relative approach" in defining poverty (i.e., base our definition on a standard of living relative to that of other community members; Rodgers, 1984, calls this *relative deprivation*), in general, the federal government has chosen to use an "absolute approach" in which an assumption is made that a certain level of income is required to purchase a minimum of goods and services necessary to an individual's or family's welfare. Those with an income level below that minimum are considered "in poverty."

Many social work and social welfare policy textbooks discuss in considerable detail the history and methods by which the Census Bureau arrives at poverty-level income threshold figures for families of varying sizes; this is a very complex discussion and beyond the purview of this workbook. Suffice it to say that the government's methods are based on patterns of family expenditures that are over three decades old.

There are two primary reasons why it is important for students of social welfare to understand the centrality of the poverty-line concept to their work as professionals. First, many clients are eligible for and rely on income support programs because they meet guidelines set by the state, which are influenced by the federal poverty-line calculation. The second reason is that just about every empirical examination of our national prosperity uses the poverty-line calculation as a critical measure. When scholars talk about "the growth of poverty" in this country or, more obliquely, "the downward spiral of many working-class families into poverty," they are talking about the poverty-line calculation, which controls for family size.

As of 1997, the poverty level for a two-parent family of four is a bit over \$16,000. Two parents, both working at the current minimum-wage level full-time and for 50 weeks per year, earn a gross income of \$17,000. Thus, this family is considered "low income" but not "in poverty."

What do you think is the minimum income necessary to raise a family? Is it possible to purchase the minimum in goods and services necessary with a joint income of \$17,000? Maybe you grew up in a low-income household or are close to others who grew up in poverty. If that is so, you are in an excellent position to assist your classmates in this workout because these are the questions to be addressed.

WORKOUT 4 *Instructions*

Where

In and outside class

Purpose

1. To enable you to think critically about what it means to live "in poverty."
2. To enable you to assess realistically where you think the poverty threshold should be.
3. To gain some insights into the assumptions that have informed the debates about the "minimum wage" and welfare reform.

Background

In our dual roles as citizens and as serious students of social work, we need to become informed about changes proposed by our federal and state governments which are likely to affect our clients. Similarly, we need to carefully examine the facts and assumptions on which competing arguments are built, moving beyond rhetoric to serious examination.

During the Reagan presidency, Agriculture Secretary John Block wanted to demonstrate to the American people the adequacy of the standard "economy diet plan," developed for a family of four by the Department of Agriculture. To that end, he put his household of four on the economy diet. For a week, the family lived within the dietary guidelines, spending the allowable food allotment to buy their food. At the end of the week, the Secretary pronounced his experiment a success, having managed successfully to feed the household for a week on what many thought was an inadequate amount of money for the family.

Assuming that the Secretary did as he said, there are a few problems with his "experiment." First, a household of healthy individuals, in an extremely time-limited period, is not going to suffer significant ill effects (such as stunted physical, mental, and social development in children and chronic disorders, such as diabetes, in adults) from an inadequate diet. Persons who live at or below the poverty line may be subsisting on such diets indefinitely. Second, the psychological advantage the Block family had, knowing that their "deprivation" was very time-limited and controlled, is an advantage not available to those whose situation he was trying to emulate.

Mr. Block thus proved very little with his experiment. However, he is to be commended for trying, if only in a limited way, to experience the conditions of those affected by his department's policies. This workout has been developed to create the facilitating conditions for thinking about the real difficulties of living at the economic margins.

A cautionary note, though: As difficult to think about as this may be, it is no substitute for actually living that life.

Directions

1. Your instructor will divide your class into small groups of four to seven people. Once this has been done, turn to the workspace and peruse each section of the budget. Chances are that you really do not know what constitutes a reasonable expenditure for many of these items—for example, if you live in an apartment where all utilities are paid by the landlord, or if you do not pay for health insurance, you may not know what these things would reasonably cost. Thus, your first task is to divide up these groups of expenditures and assign two or three to each member of your group—for example, one person could take housing, utilities, and maintenance; another could take education, insurance, and food; and so on.
2. Members should then take one week to conduct some research to determine what might constitute a reasonable expense for the items in the expenditure groups to which they were assigned. For example, if you were assigned **Housing**, what would a reasonable home mortgage payment be for a small, two-bedroom house? Or, if you chose for the family to live in a rental unit, how much is rent in your community for an inexpensive apartment? If they own their home, do they have mortgage insurance? How much is that typically? Renter's insurance? If you were assigned **Food** as an expenditure group, what is a reasonable estimate of grocery costs for a family of four for a month? Should there be any money for eating out?
3. Once each person has conducted research on the assigned sections, turn to the Workspace section and develop the rest of the budget for the family, broadly described below, which allows them the minimum monthly income necessary for their welfare. Fill in each line item under the right-hand column, labeled "My Estimate" (if you see a line item that you think is an unnecessary expense, leave that item blank).
4. Now you are ready to reconvene with your group. At this point, everyone should have completed some research into specific areas and have some general sense of what they think are reasonable expenses in the other areas. The group's job now is to reach some consensus about each expense. For example, is it possible for this family to own their own home in your community (or even desirable), or should they rent? Is any money allotted to meals out and, if not, does everyone agree that never eating out is a reasonable expectation? Whatever the final figure that your group comes up with for each item, that figure must represent a consensus of the group's view. Each of you should note in your Workspace the dollar figure that the group agrees on for each item (in the left-hand column), as well as the dollar figures you originally thought were reasonable (right-hand column). If any expenses are met through nonconventional means (bartering is an example), this should be noted in your Workspace.

5. Once all groups have completed their calculations, the class reconvenes and your instructor guides the discussion. To prepare, think about the following questions:
   a. Prior to beginning the workout, did you believe that the government poverty-line calculation for a family of four represented a reasonable estimate of the funds needed for a particular family?
   b. Did you overestimate, underestimate, or fairly accurately estimate the funds needed for this family prior to this workout?
   c. What are some of the budget items you consider necessary but had not really thought about prior to this workout?
   d. What are some of the budget items you consider unnecessary?
   e. Has this workout changed any of your thinking about how poverty is defined, or how one defines what is essential for an adequate standard of living?

WORKOUT 4 *Workspace*

Name ______________________________

Date ______________________________

Prepare a minimum budget for the Jones family, which consists of Fred and Nadine and their two children, David, aged 6, and Esme, aged 2. The family has recently moved to the city in which your college/university is located in hopes of finding some type of work. Both Fred and Nadine were recently laid off from their jobs and are currently unemployed. Both were most recently employed in their hometown at minimum wage at a local factory that manufactures circuit boards. Following their layoffs, Fred and Nadine felt that they could not wait around in the hope that they would be called back to work, despite considerable family support.

Assume that Fred and Nadine have acquired some essentials already: beds for the family, a couch, some tables (including a dining room table), and some chairs. They also own a TV.

Beyond that, your group has to decide what kind of money they need **on a monthly basis** (in today's dollars) and how it should be spent. This should be noted in the first column. If you disagree substantially with the rest of your group on any item in the budget, note your preferred estimate in the second column.

The Jones Family Annual Budget

	Group Estimate	My Estimate (where applicable)
I. Housing		
1. Mortgage payment	________	________
2. Real estate taxes	________	________
3. Homeowner's insurance	________	________
or	________	________
1. Rent	________	________
2. Renter's insurance	________	________
II. Utilities		
1. Electricity	________	________
2. Gas/oil	________	________
3. Water	________	________
4. Garbage	________	________
5. Firewood	________	________
6. Cable TV	________	________
7. Telephone	________	________

III. Maintenance

1. Replacement of appliances	______	______
2. Repairs	______	______
Subtotal:	______	

IV. Transportation*

1. Auto loan payment	______	______
2. Auto insurance	______	______
3. Maintenance:		
Gas	______	______
Lube, oil, checkup	______	______
Repairs	______	______
4. Personal property tax	______	______
5. License plates	______	______
6. Parking, tolls, fines	______	______
7. Taxis, public transportation	______	______
Subtotal:	______	

*Note: Assume that the Joneses purchased a used car prior to their layoffs. For the purposes of this exercise, you may also assume that either (a) they are paying off the balance of their car loan at a very nominal rate or (b) they have decided to sell the car, pay off their loan, and use public transportation.

V. Education

1. Tuition	______	______
2. School expenses (fees, books, supplies, projects, school pictures, etc.)	______	______
Subtotal:	______	

VI. Insurance**

1. Life	______	______
2. Disability	______	______
3. Medical	______	______
Subtotal:	______	

**Your instructor may have information about your state's medical assistance program (called Medicaid at the federal level) and the eligibility guidelines for your state.

VII. **Food**

1. Groceries ______ ______
2. Dining out ______ ______
3. School lunches ______ ______

Subtotal: ______

VIII. **Wardrobe**

1. Clothing ______ ______
2. Laundromat ______ ______
3. Accessories (includes shoes, belts, purses, jewelry for the whole family) ______ ______

Subtotal: ______

IX. **Personal Care/Sundries**

1. Haircuts ______ ______
2. Cosmetics, shampoo, shaving supplies, deodorant, over-the-counter health/hygiene products ______ ______

Subtotal: ______

X. **Medical Care**

1. Prescriptions ______ ______
2. Optometry ______ ______

Subtotal: ______

XI. **Dependent Care**

1. Allowance (for eldest child) ______ ______
2. Child care/baby-sitters ______ ______

Subtotal: ______

XII. Discretionary Expenses***

1. Entertainment (i.e., VCR rentals, movies, camping equipment, concerts)	______	______
2. Vacation/travel	______	______
3. Postage	______	______
4. Birthday, Christmas gifts	______	______
5. Cleaning supplies	______	______
6. Lawn supplies (i.e., lawnmower gas)	______	______
Subtotal:	______	

XIII. Miscellaneous**** ______

Total: ______

***Discretionary expenses are the ones over which you have the most control. Depending on your outlook, you might budget no funds in this category or some nominal amount.

****Twenty-three states tax the income of the working poor. In Kentucky, for example, a family of four paid 1995 state income tax of $524 on an income of $15,570. Illinois and Indiana taxed two-parent families of four on 1995 income beginning at $4,000. The following states also require the working poor to pay state income tax, at the following levels, for families of four earning poverty-level wages: Hawaii ($439), Indiana ($393), Alabama ($363), Oregon ($352), Illinois ($347), Delaware ($295), Michigan ($257), Virginia ($239), West Virginia ($227), Arkansas ($226), Montana ($216), New Jersey ($180), Missouri ($159), Massachusetts ($157), Oklahoma ($152), Pennsylvania ($131), Ohio ($120), Georgia ($98), Louisiana ($93), Kansas ($90), Utah ($40), and Maine ($13).