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How Much Is Enough?

Basic Family Budgets
for Working Families

JARED BERNSTEIN
CHAUNA BROCHT
MAGGIE SPADE-AGUILAR

ECONOMIC POLICY INSTITUTE

About the Authors

Jared Bernstein, a labor economist, joined the Economic Policy Institute in 1992. His areas of research include income and wage inequality, technology's impact on wages and employment, low-wage labor markets and poverty, minimum wage analysis, and international comparisons. He has published extensively in popular and academic journals, and is the co-author of four editions of the book *The State of Working America*.

Chauna Brocht joined EPI as a policy analyst in 1999. Her research focuses on poverty measurement, low-wage labor markets, and living wage and minimum wage analysis. Ms. Brocht coordinates EPI's outreach program and provides technical assistance to state and local advocates on living standards issues. She has an M.A. in public policy from the Humphrey Institute at the University of Minnesota.

Maggie Spade-Aguilar, a research associate at EPI, works primarily in the issues of welfare reform, welfare-to-work, low-wage labor markets, and inequality in computer access. She is currently a public policy doctoral candidate at the University of Massachusetts-Boston, and her dissertation investigates policies surrounding computer access for welfare-to-work participants.

*To Gordon Fisher,
who has been an invaluable resource
on poverty measurement
to both scholars and the public
for over 20 years.*

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Family Budget Project Advisory Committee

Jennifer Brooks, Wider Opportunities for Women
Herb Cederberg, Jobs Now Coalition
Susan Einbinder, University of Southern California, School of Social Work
Gordon Fisher, Department of Health and Human Services
Thesia Garner, Bureau of Labor Statistics
Barbara Gault, Institute for Women's Policy Research
John Howley, Service Employees International Union
Cecilia Perry, American Federation of State, County, and Municipal Employees
David Johnson, Bureau of Labor Statistics
Ellen Kahler, Peace and Justice Center
Jen Kern, Association of Community Organizations for Reform Now (ACORN)
Chris Owens, AFL-CIO
Geoffrey Paulin, Bureau of Labor Statistics
Diana Pearce, University of Washington, School of Social Work
Trudi Renwick, Fiscal Policy Institute
Patricia Ruggles, Department of Health and Human Services
John Schwarz, University of Arizona
Nancy Sconyers, National Association of Child Advocates
Greg Speeter, National Priorities Project
Christine Silvia, AFL-CIO
Lucilla Tan, Bureau of Labor Statistics

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Executive Summary

In recent years, with the introduction of welfare reform and renewed interest in working poverty, advocates around the country have developed what are called “basic family budgets,” which attempt to measure the amount of income families require to meet their basic needs. These budgets, examined in this study, have been a useful tool in a number of policy debates surrounding working poverty, including welfare reform, the living wage, and job training initiatives, and they address and in many ways overcome the inadequacies of the official poverty thresholds as measures of well-being.

Basic family budgets use a market-basket approach. First, they identify budget items necessary for a working family to maintain a safe and decent standard of living, then determine how much it costs to provide each item at an adequate level. This straightforward approach may not be as straightforward as it sounds, however. Are transportation costs based on public transit, car travel, or both? How many bedrooms does a four-person family need? Does the lowest-cost child care meet basic needs? Is television a basic necessity, or savings for emergencies? In other words, the selection and costing of items raises a host of conceptual and methodological issues, which are discussed in this study.

Moreover, it is important that each budget item be specific to family size and composition, work status of adults, and regional variations. Unfortunately, data are not always available to meet all of these criteria, and researchers often have to make compromises. As part of our report, we review how researchers have constructed family budgets. We then take what we consider to be the best methods to construct a budget, using readily available data, and give an example, using Baltimore, Md.

Beyond the pragmatic construction of family budgets, our report yields a number of insights relevant to the economic lives of low-income, working families:

- The current poverty measure is conceptually insufficient for measuring the basic income needs of a working family. Alternative poverty measures, such as that recommended by the Panel on Poverty and Family Assistance of the National Research Council (NRC), are a vast improvement over the current approach, and should be adopted by the federal government as the official measure;
- Except in the case where one parent stays home with the child, family budgets for working families must incorporate child care costs. Given the variation and importance of quality care for child development, the amount budgeted for child care must be high enough to ensure that working families can afford reliable care of decent quality;

- Given the importance of capturing geographical variation in family budgets, there is no meaningful national budget threshold. The three-person family (one adult with two children) budgets we reviewed, as well as our own, generated levels that ranged from about \$20,000 to \$40,000 in 1996 dollars. All estimates were well above the poverty threshold for a comparable family (\$12,636 in 1996);
- Data from the Consumer Expenditure Survey reveal that low-income families tend to spend less on basic necessities than recommended by basic family budgets, a finding which suggests that such families are not fully meeting their basic needs;
- Based on the income levels of these budgets, few jobs in the low-wage sector of the labor market provide the compensation that would enable working families to meet their basic needs.

Family budgets tend to follow the pattern of the one that follows, which we prepared for this study. The amounts are monthly estimates for a family of four (two parents and two children) living in Baltimore:

- *Food:* \$500 for the minimum amount a family needs to spend for food prepared at home, as recommended by the U.S. Department of Agriculture's Low-Cost Food Plan.
- *Housing:* \$628 for a two-bedroom apartment that costs no more than 40% of all safe and decent housing, as measured by the Department of Housing and Urban Development's Fair Market Rents.
- *Health care:* \$267, an amount that recognizes that not all families receive health insurance through their employers. We use a weighted average of the employee share of the premium for employer-sponsored health insurance and the premium costs for a non-group plan, plus the cost of out-of-pocket medical expenses.
- *Transportation:* \$222 for miles driven for work and other necessary trips. This amount takes into account different driving distances for cities, suburbs, and rural areas, and is based on the cost-per-mile estimates from the Internal Revenue Service.
- *Child care:* \$626 for center-based child care or family child care centers, as reported by a local child care cost survey (when available) or in a Children's Defense Fund study.
- *Other necessary expenses:* \$338 for the cost of telephone service as reported by the Federal Communications Commission, and the cost of clothing, per-

sonal care, household items, bank fees, union dues, reading materials, school supplies, and television as reported in Consumer Expenditure Survey data.

- *Taxes:* \$313 for federal payroll taxes and federal, state, and local income taxes. This expense also takes into account funds received through the Earned Income Tax Credit (EITC).

Thus, a family of four in Baltimore would need an annual income of \$34,732.28 just to meet its basic needs and achieve a safe and decent standard of living. But at this basic level, it would have to give up many "unnecessary" goods that most families take for granted, including restaurant (even fast-food) meals, vacations, movies, and savings for education, retirement, and emergencies.

Few jobs in the low-wage sector of the labor market provide compensation that would enable working families to meet the basic needs costed out in these budgets. Thus, either low-wage workers supporting their families need higher-paying jobs, or their budget needs will have to be further subsidized. A combination of improved labor market policies, nationalized systems for important budget items like health care and child care, and subsidies to support working families are important steps that should be taken to secure even just a basic, no-frills standard of living for American working families.

Introduction

With the advent of welfare reform and renewed interest in working poverty, policy analysts and advocates for the poor have become interested in the question: what is an adequate family income for a working family?

The word “adequate,” of course, is highly ambiguous. What is sufficient for one person, with her own set of needs and personal preferences, will not be adequate for someone else. And even if we were able to control for differing needs and preferences, sufficiency for one family type—say a mother with two children—will not likely be the same for a different family type.

The most common answer to the question of what constitutes an adequate income is the U.S. poverty threshold. Families whose incomes are below this level are judged by the government to be poor, or to have inadequately low incomes. In fact, eligibility for many public assistance programs, such as food stamps and Medicaid, are keyed to the poverty guidelines. Yet many analysts consider the U.S. poverty thresholds to be seriously outdated. Some of these critics argue that a more accurate measure would lead to higher rates of poverty, while some, though fewer, argue that current measures overstate poverty. From the perspective of this report, the question is: does the poverty measure accurately answer the central question regarding adequate income levels? We believe that it does not.

For an alternative to the U.S. poverty thresholds as measures of adequate incomes, we turn to the growing body of literature on family budgets. This research seeks to deepen our understanding of what it takes for different types of families to meet their basic economic needs in today’s marketplace.

Much of this recent literature on family budgets has been developed by advocates at the local level who seek to determine whether the jobs available in their local labor markets will pay enough to meet the needs of the working poor. In this sense, advocates are returning to a field of inquiry that has these days fallen largely to economists. Indeed, the first attempts to measure poverty were made not by social scientists but by advocates for the poor, such as social workers and labor union representatives (Fisher 1999a). Now, due to welfare reform, part of the responsibility for addressing poverty has shifted from the federal government to local communities, with little guidance from the federal government about how much those leaving the welfare rolls will need to earn in order to meet the self-sufficiency goal of welfare reform. Thus, advocates have re-entered the debate about defining an adequate income through the creation of basic family budgets.

Family budgets use a market-basket approach. First, they identify budget items necessary for a working family to maintain a safe and decent standard of living. Next, they determine the cost of providing each item at an adequate level. This relatively straightforward measure raises a host of conceptual and methodological issues, which are the subject of this report.

The primary purpose of this study is to provide advocates and others who use these budgets with a deeper understanding of their content and derivation. A second objective is to provide a guide to local researchers who are developing basic family budgets and who want to explore methodological issues in greater depth. To meet this goal, we identify what we consider to be the best methods and data sources available for constructing a geographically specific budget, and we provide an example for Baltimore, Md.

The first section of this study discusses some of the practical applications of basic family budgets in today’s policy domain. Various analysts have invoked such budgets as benchmarks, or reference points, in their analysis of welfare reform; examples include the “job gap” studies, which examine how many jobs pay a “living wage” in an area. The living wage movement has also made use of family budgets in arguing for wages that allow families to be self-sufficient. In addition, eligibility for certain benefits under the Workforce Investment Act calls for comparison of a family’s income to a family budget derived by the Bureau of Labor Statistics (BLS).

The second section reviews critiques of the U.S. poverty thresholds (and guidelines) as measures of what families need to meet their basic needs. Some researchers have proposed alternative poverty measures that significantly improve on the current approach, and we discuss how these differ conceptually from the basic family budget. In Section 3 we turn to the conceptual issues involved in addressing the question of income sufficiency, such as how to operationalize the concept of “sufficiency,” and then to an analysis of the merits of the relative, absolute, and subjective approaches to family budget construction.

The heart of this report, in Section 4, is a detailed discussion of the items in family budgets, including food, housing, child care, health care, transportation, and a residual category for all other necessities. For each budget item we discuss the rationale for its inclusion, what the literature says about determining its cost, how various budgets have incorporated the item, the data sources available for measuring its cost, and our view of the best methodological approach for examining the item. This section also discusses the other important considerations in basic family budget construction: accounting for geographical differences, adjusting for family size, and updating budgets to reflect economic growth and price changes.

But how do these recommended levels of spending compare to what low-income families are actually spending? To answer this question we turn to the Bureau of Labor Statistics’ Consumer Expenditure Survey (CE), which allows us to examine the actual expenditures of particular family types, ranked by income quintile, on food, housing, and the other essential items.

Finally, we use our recommended methodology to derive a family budget estimate for Baltimore, Md. Descriptions and reviews of 19 recently constructed basic family budgets are contained in Appendix 1.

The main findings from this study are the following:

- Numerous important social policies necessitate the development of a valid, basic family budget; the most prominent of these is welfare reform, but such

budgets are also of use to the living wage movement;¹

- The current poverty measure is conceptually insufficient for measuring the basic income needs of a working family. Alternative poverty measures, such as that recommended by the Panel on Poverty and Family Assistance of the National Research Council (NRC), are a vast improvement over the current approach, and should be adopted by the federal government as the official measure;
- Expert opinions provide useful guidance in budget construction. For example, nutritionists, child care specialists, and housing experts can offer expertise in choosing among the various data sources or justify expenditure levels drawn from those sources;
- Except in the case where one parent stays home with the child, family budgets for working families must incorporate child care costs. Given the variation and importance of quality care for child development, the amount budgeted for child care must be high enough to ensure that working families can afford reliable care of decent quality;
- Given the importance of capturing geographical variation in family budgets, there is no meaningful national budget threshold. The three-person family (one adult with two children) budgets we reviewed, as well as our own, generated levels that ranged from about \$20,000 to \$40,000 in 1996 dollars. All estimates were well above the poverty threshold for a comparable family (\$12,636 in 1996);
- Data from the Consumer Expenditure Survey reveal that low-income families tend to spend less on basic necessities than recommended by basic family budgets, a finding which suggests that such families are not fully meeting their basic needs;
- Based on the income levels of these budgets, few jobs in the low-wage sector of the labor market provide the compensation that would enable working families to meet their basic needs.

The shortfall between pay in the low-wage sector and the cost of basic family needs has important policy implications. Various studies applying the methodologies described in this report have derived family budgets which reveal that many, if not most, families of low-wage earners will not be able to meet their basic needs. Some of these studies have called for higher-quality jobs with compensation levels that will lift working families to the needed income level. But this may not be enough. Rather, both higher-quality jobs *and* expanded work supports (refundable tax credits that support work) that provide a supplement to earned income will be needed to assure a merely basic standard of living for working American families.

I. Implications of Family Budgets for Public Policy

Historically, family budgets have been developed as a tool for policy makers to determine whether low-income families had enough income to meet their basic needs. Today, they are used in much the same way, as well as to influence decisions regarding government programs that support working families and labor market policies.

Welfare reform and family budgets

The recent attention to family budgets has been in large part a reaction to welfare reform. The foremost goal of welfare reform is for single-mother families to reduce their dependence on government benefits and increase their economic self-reliance through paid employment. This has led many poverty analysts and advocates to examine the relationship between the compensation that former welfare recipients are likely to receive and their consumption needs. The central question of this research is: will the earnings of former welfare recipients in the low-wage labor market be high enough to provide for their families' minimum consumption needs?

Some of the advocates' work has referenced the poverty thresholds to argue (at least implicitly) that the consumption needs of poor families would be adequately met as long as their earnings plus subsidies (such as food stamps and the Earned Income Tax Credit, or EITC) reached the poverty thresholds.² Others explicitly reject the poverty thresholds as an adequate measure of these families' needs. Those who reject the poverty thresholds in this context thus need a more reliable benchmark by which to judge whether earnings are adequate.

The federal government has provided little guidance regarding the appropriate level of earnings that former recipients will need in order to meet the "self-sufficiency" goal of welfare reform. At the same time, the Personal Responsibility and Work Opportunity Reconciliation Act (or PRWORA, usually simply called "welfare reform") devolves the responsibility for moving welfare recipients to the paid labor force to the states. Consequently, advocates at the local level have developed their own measures of sufficient income.³ For example, in the recent set of "job gap" studies, state- and local-level advocates seek to determine the number of jobs that pay enough for families to support themselves without government assistance. The typical approach is to create a basic needs budget, and compare this benchmark to the number of jobs paying the necessary wage in each locality (the budget components of several of these studies are reviewed in this report). The