You Can’t Fix What You Don't Measure: How ALICE Can Help Rebuild the Middle Class

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The American Dream tells us that anyone who works hard can achieve a comfortable lifestyle for their family, but this foundational concept is increasingly obsolete for the nearly 70 percent of Americans who identify as middle class. Even as wages have risen slightly, the share of income going to middle class households has shrunk, leading to financial instability and stress among many families. Despite their increasing struggles, these families do not meet the technical or colloquial definitions of being in poverty and therefore are unassisted by policies that focus on those below official poverty thresholds.

There are, broadly, two reasons that public policies force these households to fend for themselves. Most fundamentally — we measure the proportion of households with financial need using the Federal Poverty Level, the flaws of which are well-documented. Developed in the mid-1960s as a way of measuring progress in the war on poverty, it is based entirely on food costs and fails to account for some of the biggest household expenses such as housing and child care. While spending on food may have once been a meaningful indicator of a household’s overall budget, accounting for one third of costs, today it accounts for only 10 to 12 percent of household expenses. Just as importantly, the measure does not account for geographic variation within the continental United States (although it does have separate thresholds for Alaska and Hawaii). The household income level considered to meet basic needs is the same in Indianapolis as it is in New York City, even while the cost of living is 29 percent less in Indianapolis.
Following the old management adage that you fix what you measure, government policies have in part failed because they have not been focused on the actual income required to be middle class in America. With a myopic focus on alleviating literal poverty, social policy loses sight of the bigger picture of ensuring financial stability or, at a minimum, allowing a household to temporarily meet all of its basic needs. A 2014 Congressional Research Service report found public assistance woefully lacking, even when recipients maximized assistance programs for which they were eligible, such as the maximum combined benefits of TANF and SNAP. The report found that the median state provided only slightly more than half (55 percent) of what it took to reach the FPL. In Hawaii, the most generous state, those benefits still totaled only 72 percent of the poverty line. It’s no surprise that work from Dr. Ann Huff Stevens shows that more than one-third of families who exit poverty return to poverty within four years.

The aim of the ALICE Household Survival Budget is to refocus the conversation from an antiquated, inadequate measure to one that accurately assesses a household’s ability to afford the bare minimum to live and work in the modern economy. ALICE stands for Asset Limited, Income Constrained, Employed — and it largely defines those households that make too much to be considered in poverty but cannot make ends meet. Using county-level data, the ALICE Household Survival Budget covers housing, child care, food, transportation, health care, taxes, and a smartphone. Using this measure for a range of household compositions, we find that in addition to the 14 percent of households living in poverty nationwide, another 29 percent are unable to meet their basic monthly expenses. In other words, 43 percent of American households (51 million households) are struggling financially.

When we include these ALICE households — those above the official poverty rate but below this minimum threshold — we find social assistance programs lag even farther behind need. In New Jersey, for example, the earnings of households with income less than the Household Survival Budget totaled approximately $34 billion while their actual need was $70 billion. Public spending through cash transfer programs combined with targeted social services like Head Start filled only 35 percent of this gap, with many of those resources exclusively going to the third of households living in poverty.
Addressing these broader challenges, and more fundamentally addressing financial stability, requires a reconceptualization of how we think of need, especially as we move through a 21st Century in which housing and child care are growing faster than wages, even for jobs that demand more skills. Hawaii has done this, at least in theory, by passing a resolution that states that “all families in Hawaii deserve basic financial security and that it is in the public interest to ensure economic sustainability for our people.” This is a first step, one that needs to be followed by policy solutions. Hawaii is exploring a Universal Basic Income, and while that is one option currently sweeping the social policy world, it is far from the only one. In particular, changes that would make a difference for ALICE families include:

1) Make work meaningful by ensuring employment stability and wages that cover the most basic needs.
2) Address the widening skills gap, a perennial struggle that is especially crucial as economists and entrepreneurs predict a wave of digital advances with the potential to fundamentally disrupt the labor market.
3) Provide a cushion during periods of financial instability, allowing households to afford not only a roof over their heads and food on the table but means to update their work skills.
4) Facilitate access to affordable credit. Many Americans with low incomes or poor credit are forced into predatory lending markets that lead many into inescapable debt.

With more than 40 percent of households in the U.S. unable to support even the basic ALICE Household Survival Budget, the war on poverty for the last 50 years cannot be deemed a success. It is no wonder that the aspirations of the 70 percent of Americans who identify as middle class have not been met. It is only by removing the blinders that keep us focused on poverty that we will be able to ensure opportunity and stability across the board.

Learn more about the ALICE Project here: www.UnitedWayALICE.org

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