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June 21, 2019
The Honorable Nancy Potok, Chief Statistician
Office of Management and Budget
725 17th St. NW
Washington, DC 20006

Dear Dr. Potok:

Thank you for the opportunity to comment on the Office of Management and Budget's (OMB) notice regarding differences among various consumer price indexes and their influence on the estimation of the official poverty measure.

The Center on Budget and Policy Priorities is a nonpartisan research and policy organization based in Washington, D.C. Founded in 1981, the Center conducts research and analysis to inform public debates and policymakers about a range of budget, tax and programmatic issues affecting individuals and families with low or moderate incomes.

The OMB notice contemplates lowering the poverty line by applying a smaller cost-of-living adjustment each year, using either the chained CPI or the Personal Consumption Expenditures Price Index (PCEPI) in place of the CPI-U. We strongly urge you to reject this change.

Such a change would be of highly questionable technical merit, would define down poverty in a way that masks the extent of need in the country and actually increases hardship, lacks an adequate evidence base, and has not received minimum levels of deliberation and comment.

As explained below, we have several concerns. First, considerable evidence suggests that prices may rise faster for low-income households than across the economy as a whole, making the proposed slower-growing inflation adjustment *less accurate* than the current inflator as an indicator of the prices paid by such households. Second, the evidence base needed to fully assess these concerns is incomplete, making alterations to the poverty line's inflation mechanism premature. Third, overwhelming evidence, public opinion, and expert opinion suggest that the poverty line already understates what families need to avoid serious material hardship, and this shortfall appears to have grown over time; adopting a slower-growing inflation index would make this shortfall even worse. Fourth, the OMB notice fails to consider the impact on eligibility for federal health, nutrition, and other basic assistance programs, specifically asking commenters *not* to provide evidence on that question in their submissions. These issues are discussed in detail below. All referenced research is included, in its entirety, in the Appendix to ease OMB's review of this important evidence.

Prior to moving forward with any changes to the poverty line, OMB should work with the Bureau of Labor Statistics and outside experts to gather more complete data on price changes for low-income households and conduct careful and comprehensive analyses of these data, garner systematic input from a broad group of academic experts about both the inflation issues and the adequacy of the official poverty threshold as a measure of the cost of meeting basic needs, undertake a serious analysis of each of these issues, subject findings to peer review, publish peer-reviewed findings, and solicit public comment.

Notice Fails to Present or Consider Evidence That Low-Income Households May Experience Higher Inflation

This proposal appears to reflect a belief in the Administration that the CPI-U, which the Census Bureau now uses to update the federal poverty line each year, is not as accurate a measure of inflation as alternative (and slower-rising) indexes such as the “chained CPI.” Many analysts may agree that the chained CPI is a more accurate gauge of price changes across the whole economy. But it is not at all clear whether the chained CPI is a more accurate measure of price growth for low-income households. If low-income people face faster inflation than the economy as a whole, then reducing the inflation measure used to index the official poverty threshold would mean that the threshold would reflect a lower level of purchasing power than in the past, and the gap would grow with each passing year.

We emphasize that research in this area remains incomplete, with some crucial questions having only been studied using data on retail goods such as food and housewares. Further, some of the findings presented below differ from one study to the next. Such gaps and inconsistencies in the evidence base are strong reasons not to change the poverty line at the current time.

There are two reasons why a slower-rising index may understate price increases for the poor.¹

First, prices have been rising faster than the CPI-U for the broad categories of goods and services that dominate poorer households’ spending.

- Low-income households spend a larger share of their income on housing — especially rent, which has been rising faster than the overall CPI-U in recent years. The cost of rent rose 31 percent from 2008 to 2018, much faster than the overall CPI-U (17 percent). The poorest fifth of households dedicate 40 percent of their spending to housing (including shelter, fuel, utilities, furnishings, and operations), compared with 33 percent for all households. Spending specifically on rent (one component of overall housing costs) is even more concentrated among the poor: the poorest fifth dedicate 16 percent of their spending to rent, compared with 7 percent for all households, according to Bureau of Labor Statistics (BLS) data for 2017.²

¹ These issues are discussed in the CBPP report, “Reducing Cost-of-Living Adjustment Would Make Poverty Line a Less Accurate Measure of Basic Needs,” June 2019, <https://www.cbpp.org/research/poverty-and-inequality/reducing-cost-of-living-adjustment-would-make-poverty-line-a-less>.

² U.S. Bureau of Labor Statistics (BLS) and CBPP calculations. Price changes for housing made up 42 percent of the overall CPI-U in December 2018; rent of one’s primary residence made up 8 percent.

- BLS has created experimental price indices that are focused on “basic necessities.” These indices show that the price of a market basket consisting only of shelter, groceries, clothing, energy, and medical care — items that together make up a disproportionately large share of poor households’ spending — rose at an average rate of 2.99 percent per year from 1982 to 2014, or 0.21 percentage points faster than a market basket reflecting all households’ consumer purchases (2.78 percent).³
- The Federal Reserve Bank of Chicago compiles price indexes designed to calculate how inflation affects specific socio-economic and demographic groups. These indices show that prices for the average bundle of goods and services purchased by households in poverty rose 0.18 percentage points a year faster from December 2003 to December 2013 than prices for the average bundle of items purchased by all income groups.⁴

Second, other recent studies find that low-income households may face more rapidly rising prices than middle- and upper-income households even for the same (or very similar) types of goods. Low-income households may have fewer retail outlets in their neighborhood, lack access to convenient transportation, be less able to buy cheaper items in bulk, or lack internet service at home, for example. Or, in other ways, they may face a narrower selection of goods or be less able to change their consumption patterns when relative prices change.

- Researchers at the University of Chicago and the Federal Reserve Bank of Chicago, using detailed product bar-code data matched from stores and shoppers’ homes, find “striking” differences in inflation rates across income groups for the subset of food and other retail goods in their sample. From 2004 to 2013, prices rose by 33 percent for the goods and services bought by households making less than \$20,000, but by 25 percent for households with incomes over \$100,000.⁵ (Note that the overall price indexes discussed in this comment are all disproportionately influenced by the prices paid by higher-income, higher-spending households. Thus, comparisons between inflation for higher- versus low-income households are relevant for evaluating whether these indexes reflect the experience of low-income households.⁶)

³ Jonathan Church, “The cost of ‘basic necessities’ has risen slightly more than inflation over the last 30 years,” *Beyond the Numbers: Prices and Spending*, Vol. 4, No. 10, June 2015, <https://www.bls.gov/opub/btn/volume-4/the-cost-of-basic-necessities-has-risen-slightly-more-than-inflation-over-the-last-30-years.htm>.

⁴ While the IBEX tables do not show whether the year-to-year indexes differ significantly for households in poverty and households overall, the pattern of differences is highly consistent over time. The December 12-month inflation rates are higher for households in poverty in 28 out of 31 years observed, a difference that would be unlikely to occur purely by chance ($p < .00001$). Federal Reserve Bank of Chicago, “IBEX Inflation,” June 23, 2015, <https://www.chicagofed.org/research/data/ibex/ibex-inflation>, and CBPP calculations. Calculations reflect inflation rates compounded over time.

⁵ Greg Kaplan and Sam Schulhofer-Wohl, “Inflation at the Household Level,” *Journal of Monetary Economics*, 2017, https://gregkaplan.uchicago.edu/sites/gregkaplan.uchicago.edu/files/uploads/kaplan_schulhoferwohl_jme_2017.pdf. Figures are for the third quarter of each year. The differences between lower- and higher-income groups in other quarters are similar or even larger.

⁶ Most price indexes in the United States, including the CPI-U, chained CPI, and PCEPI, are considered “plutocratic.” That is, they are weighted to represent the aggregate amount spent on each product, rather than reflecting the prices faced by the median, or typical, household in the economy.

- Researchers at the Federal Reserve Bank of Minneapolis and the University of California San Diego have developed income-specific price indexes using similar detailed data on household retail purchases. They find that, from 2004 to 2010, retail prices rose 0.6 percentage points faster each year for the purchases made by the poorest fourth of the population than for the purchases of the richest fourth. “[H]igh-income households are better able to pay lower prices for the same category of goods by shifting their expenditures to less expensive brands” during economic downturns, the researchers noted. This strategy is less available to low-income households if they have been using less expensive brands all along.⁷
- Economists at the University of California Berkeley identify another reason why low-income households may experience higher inflation: larger, more productive firms have responded to rising income inequality by catering to wealthier households, offering them lower costs on innovative high-end goods to gain their business.⁸
- London School of Economics economist Xavier Jaravel draws a similar conclusion. Using detailed product-level data on retail purchases, he finds that annual inflation for these goods from 2004 to 2015 was 0.66 percentage points higher for households earning below \$20,000 than for those making \$100,000 or more. He finds evidence that this occurred in large part because “(i) the relative demand for products consumed by high-income households increased because of growth and rising inequality; (ii) in response, firms introduced more new products catering to such households; (iii) as a result, the prices of continuing [i.e., older] products in these [high-end] market segments fell due to increased competitive pressure.”⁹

This last analysis is of particular interest because it includes several tests of robustness of the results. In addition to scanner data, Jaravel uses Consumer Expenditure Survey (CEX) and CPI data and finds evidence that the inequality in inflation rates by income level holds across a full range of consumption categories, not just retail goods. The difference in inflation rates shows up in both fixed-weight and chained price indexes, suggesting that differential inflation does not primarily stem from the differing ability of rich and poor to change their consumption patterns as relative prices change. The differences in inflation also persist over time, showing up before, during, and after the Great Recession and in the CEX-CPI data even back to the 1950s. Notably, the data suggest that most inflation inequality tends to arise within (rather than between) broad product categories and thus is much less evident when examining more highly aggregated data. But even using CEX-CPI data that is more aggregated than his retail bar-code data, Jaravel finds the lowest-income fifth of households have annual inflation rates for 2004 through 2015 that are 0.368 percentage points above those of the highest-income fifth.

⁷ David Argente and Munseob Lee, “Cost of Living Inequality during the Great Recession,” Kilts Center for Marketing at University of Chicago Booth School of Business, Nielsen datasets Joint Paper Series, March 1, 2017, <https://ssrn.com/abstract=2567357>.

⁸ Benjamin Faber and Thibault Fally, “Firm Heterogeneity in Consumption Baskets: Evidence from Home and Store Scanner Data,” National Bureau of Economic Research Working Paper No. 23101, August 2017, <https://www.nber.org/papers/w23101>.

⁹ Xavier Jaravel, “The Unequal Gains from Product Innovations: Evidence from the US Retail Sector,” *The Quarterly Journal of Economics*, Vol. 134, Issue 2, May 2019, pp. 715–783, <https://academic.oup.com/qje/article-abstract/134/2/715/5230867>. An earlier version of this paper is available at <https://equitablegrowth.org/working-papers/unequal-gains-from-product-innovations/>.

- Recent preliminary work at BLS examining price changes from 2014 to 2017 finds some evidence that, within a given product category, prices rose faster for lower-cost items than for higher-cost items, a difference that could raise inflation for low-income households by as much as 0.55 percentage points a year. (This study considers all prices, not just retail prices.) Moreover, the general link between low income and inflation rates is “consistent with prior BLS research suggesting the poor tend to face higher inflation rates compared to the rich,” the BLS analysts noted.¹⁰

These two types of studies — those comparing inflation rates across different types of goods and those comparing inflation rates for similar types of goods across different income groups — tend to suggest that low-income households have experienced higher inflation than average or high-income households in recent years and decades.¹¹ If so, indexing the poverty threshold by an inflation measure that grows less rapidly, such as the chained CPI, could make the poverty threshold less accurate, not more so, as a measure intended to reflect a constant level of purchasing power. (As discussed below, there is also significant evidence that the poverty threshold is too low if it is intended to reflect the income that individuals and families need to meet a core set of basic needs.)

A numerical example illustrates why the chained CPI may be less accurate than the CPI-U for households in poverty. Suppose that the chained CPI rises about 0.2 percentage points less each year than the CPI-U, as CBO has projected,¹² and this reflects true overall consumer price trends across the economy. If, however, prices for the categories of goods purchased by households in poverty tend to rise 0.18 percentage points more than for the economy as a whole (as the previously cited calculations from the Federal Reserve Bank of Chicago suggest), then a more suitable annual inflation adjustment for the poor might be $(-0.20 + 0.18 = -0.02)$ less than the CPI-U, signifying a reduction of two one-hundredths of a percentage point per year from the CPI-U. In this case, the two-tenths of a percentage point adjustment in the chained CPI would be about ten times too big, and the result would be much less accurate than the CPI-U as a measure of price change for households in poverty.

¹⁰ Under one set of assumptions, the study found, estimated prices over the three-year study period rose 7.05 percent for the poorest fifth of households, compared with 5.34 percent overall, a statistically significant difference. When annualized, the rate for low-income households was 2.30 percent, or 0.55 percentage points higher than the overall rate (1.75 percent). Robert Cage, Joshua Klick, and William Johnson, “Population Subgroup Price Indexes: Evidence of Heterogeneity or Measurement Error?” working draft, Bureau of Labor Statistics Office of Prices and Living Conditions, https://www.unece.org/fileadmin/DAM/stats/documents/ece/ces/ge.22/2018/United_States.pdf.

¹¹ For similar reasons, a 1995 National Academy of Sciences expert panel cautioned that, over the long run, the CPI-U could be a misleading guide to price changes for low-income families: “if the relative prices of necessities and luxuries change over time, as has happened in some periods in the past, the use of the CPI will not give an accurate picture of real adjustments for poor people.”

¹² CBPP analysis of Congressional Budget Office, *The Budget and Economic Outlook: 2019 to 2029*, January 2019, supplemental tables, www.cbo.gov/publication/54918.

If, as some other studies suggest, the difference between the price changes experienced by low-income households and consumers overall exceeds 0.18 percentage points, the degree to which switching to the chained CPI will result in a less accurate threshold will be even greater.¹³

In addition to the previously described studies focusing on price change for low-income households, at least two studies by BLS experts have focused on particular properties of chained price indices. Their findings suggest that the way such indexes are constructed might be less suitable for low-income households as a general rule, not just over particular time periods. The studies focus on two features of chained indices:

- **Ability to Substitute Goods.** The chained CPI rises more slowly than the CPI-U because it accounts for consumers' ability to partly offset the effect of changes in relative prices by switching ("substituting") between types of products. Yet in one of the few studies to directly ask whether low-income households are equally able to substitute goods, BLS economists in 1996 found suggestive evidence that poorer households may be less — perhaps much less — able to change their consumption patterns in this way. This raises questions about the validity of the central rationale for using the chained CPI to track the living costs of the poor.¹⁴ (As previously noted, however, the more recent analysis by Jaravel finds no evidence that lower-income households substitute less.¹⁵)
- **Sensitivity to Outliers.** The chained CPI formula may be especially sensitive to price declines in products of relatively low importance in the budgets of low-income households, such as personal computers. According to a BLS study of data for December 1999 to December 2000, relatively few products undergo very large price declines in a given year, but those unusual cases — especially the large price *declines* — drive much of the difference between the chained CPI and the CPI-U. In the study's words, the data "suggest that deflationary outliers

¹³ A number of findings suggest that inflation could be well above 0.18 percentage points higher for households in poverty than households overall. For example, visual inspection of figure 3 in the paper by Jaravel (2019) appears to indicate a gap of approximately 0.25 percentage points between the inflation rates for the bottom fifth and middle fifth of households by income, based on CEX-CPI data. Jaravel does not list comparable price indexes for households in poverty or households overall, but his analysis suggests that an accurate measurement of that gap would be larger than 0.25 for three reasons: (a) the 0.25 gap is based on moderately aggregated CEX-CPI data, whereas Jaravel convincingly shows that more refined, less aggregated data tend to yield larger gaps; (b) poor households are an especially low-income subset of the bottom one-fifth of households, and Jaravel finds that inflation declines consistently with income, so inflation is likely even higher for the poor than for the bottom fifth; and (c) as previously noted, price indexes "plutocratically" give extra weight to higher-spending households and more costly goods, so the inflation rate for all households will likely be particularly influenced by the inflation rates of the fourth and fifth quintiles, and hence be even lower than the index for the middle fifth. A separate, preliminary analysis by Cage *et al.*, as previously noted, finds a potential gap of as much as 0.55 percentage points.

¹⁴ The study examined the extent to which the CPI-U might overstate inflation due to "substitution bias" — that is, to the index not taking account of consumers' changes in their spending patterns in response to relative changes in prices. Over 1984-1994, the study estimated that substitution bias caused a price index like the CPI-U to overstate inflation by a cumulative total of 1.99 percent for consumers overall. For poor consumers, substitution bias was quite similar (2.01 percent), slightly less (1.75 percent), or considerably less (0.25 percent), depending on how poor households were defined, although it was not possible to determine if these differences were statistically significant. Thesia I. Garner, David S. Johnson, and Mary F. Kokosi, "An Experimental Consumer Price Index for the Poor," *Monthly Labor Review*, September 1996, <https://www.bls.gov/opub/mlr/1996/09/art5full.pdf>.

¹⁵ Jaravel, "The Unequal Gains from Product Innovations..."

contribute heavily to the gap” between the two inflation measures. The biggest price decline studied (a 22.7 percent decline during the 12-month study period) was for the category of “Personal computers and peripheral equipment.” When categories of products with unusually large price decreases and increases were set aside, the bulk of the gap between the chained CPI and the CPI-U vanished, falling from 0.3 percentage points to 0.07 percentage points, and became “diminutive.”¹⁶ Newer BLS data show that the price index for computers has continued to fall quickly — reaching less than one-tenth of its 2000 level by May 2019¹⁷ — but low-income households remain less likely than middle- and upper-income households to own technology such as computers and smart phones.¹⁸

Together, these findings suggest that the lower inflation rates embodied in the chained CPI (relative to the CPI-U) may not accurately apply to low-income households or reflect the types of goods and services they buy.

The PCEPI, produced by the Bureau of Economic Analysis (BEA), suffers from problems similar to those of the chained CPI but likely to an even greater degree.

- The PCEPI underweights shelter even more than do BLS consumer price indices (both the CPI-U and the chained CPI) relative to its importance for low-income households. According to one study by BLS and BEA economists, shelter (called “rent of shelter” in the analysis but including both rent and “owners’ equivalent rent”) makes up about 32 percent of the market basket of goods and services considered in the CPI but only about 15 percent in the PCEPI. Although the PCEPI differs from the chained CPI in several ways, one of the biggest differences is the smaller role for shelter in the PCEPI. Because shelter prices rose faster than other prices during the 2002-2007 study period, this difference can account for all (0.43 out of 0.40 percentage points) of the difference between the PCEPI and CPI, data in the study show.¹⁹
- Because the PCEPI is a chained price index, any problems inherent in applying the chained CPI to low-income households, such as differences in ability to substitute goods or sensitivity of the index to falling computer prices, likely apply to the PCEPI as well.

¹⁶ Robert Cage, John Greenlees, and Patrick Jackman, “Introducing the Chained Consumer Price Index,” May 2003, <https://www.bls.gov/cpi/additional-resources/chained-cpi-introduction.pdf>.

¹⁷ Source: CBPP calculation from bls.gov, price index data for “Computers, peripherals, and smart home assistant devices,” series CUUR0000SEEE01.

¹⁸ Monica Anderson and Madhumitha Kumar, “Digital divide persists even as lower-income Americans make gains in tech adoption,” Pew Research Center, May 7, 2019, <https://www.pewresearch.org/fact-tank/2019/05/07/digital-divide-persists-even-as-lower-income-americans-make-gains-in-tech-adoption/>.

¹⁹ The two indices differ in other ways — some of which cause the PCEPI to rise faster than the CPI and some which cause it to rise more slowly — but these other differences approximately canceled each other out. See table 4 of Clinton P. McCully, Brian C. Moyer, and Kenneth J. Stewart, “A Reconciliation between the Consumer Price Index and the Personal Consumption Expenditures Price Index,” BEA & BLS, September 2007, <https://www.bea.gov/system/files/papers/P2007-4.pdf>.

- Because the PCEPI tends to rise even more slowly than the chained CPI, any shortfall in the chained CPI relative to the prices of low-income households would be even greater for the PCEPI.

These studies are not definitive, but they raise the serious possibility that updating the poverty line using the chained CPI would result in annual updates that less accurately capture true inflation for low-income households and result in a poverty threshold that reflects a lower and lower level of purchasing power for low-income households. At a minimum, OMB should not move forward with any change before the federal statistical agencies and other experts in the field undertake significantly more data collection and research and subject that research to peer review. And any changes should take into account what that research shows about how inflation rates for low-income households differ from inflation rates for the population as a whole.

Existing Data Are Insufficient to Fully Assess Price Changes for Households in Poverty

Price indexes for subgroups of the population, such as low-income persons, need to account both for differences in purchasing patterns across broad product categories (for example, housing, food, medical expenses, and transportation) and differences in specific products purchased within categories. Studies to date have generally focused on one or the other factor but not both. The studies of within-category inflation differences using scanner data have covered only a small portion of purchases, ranging from about 7 to 13 percent of total consumer expenditures. A wider range of consumer goods and services needs to be examined. The existing research also suggests that differences in inflation rates between subgroups may vary over time. Analyses should therefore encompass as many years as possible.

In 2002 BLS commissioned the National Academy of Sciences to study the conceptual, measurement, and other issues involved in developing cost-of-living indexes. The study panel, chaired by economist and former U.S. budget director Charles Schultze, concluded that the data collected by BLS were fundamentally not suited to producing cost-of-living indexes for subgroups of the population, such as those at different income levels:

The price changes for men’s clothing purchased at Brooks Brothers and at Walmart are [for example] combined in the “men’s suits” stratum index. In this process, all within-stratum heterogeneity is lost. And since the price changes are collected from retail stores, there is no way to assemble the data so as to make a direct link between the particular price, quality, and brand of items purchased and the economic or demographic characteristics of those who purchased them.

The panel’s report discussed in considerable detail the “difficulties and challenges” involved in constructing inflation indexes for population subgroups that reflect differences in buying patterns. The panel recommended that BLS explore collecting prices in a way that allows them to be associated with household characteristics, such as income.²⁰ Possibly because of insufficient funding, BLS did not pursue this recommendation, but no change should be made to the indexing of the poverty threshold before undertaking such a data collection and research program.

²⁰ Charles L. Schultze and Christopher Mackie, eds., *At What Price? Conceptualizing and Measuring Cost-of-Living and Price Indexes*, National Academies Press, 2002, Chap. 8, <https://www.nap.edu/read/10131/chapter/1#ii>.

Official Poverty Measure Is Already Too Low, According to Evidence, Public Opinion, and Experts

The poverty line is already below the income a family needs to purchase a reasonable set of necessities. Thus, lowering it further would make poverty measurement — the goal of which is to identify the number of individuals in families that struggle to make ends meet — less accurate.

The high rates of hardship among families with incomes just above the poverty line show that the poverty line is too low.

- Among non-elderly adults with income between the poverty line and twice the poverty line, over 60 percent reported one or more material hardships such as food insecurity, missed payments for utility bills or rent or mortgage, or problems paying family medical bills, according to a 2017 Urban Institute survey — not significantly different than for those in poverty.²¹
- In the same survey, 51 percent of these near-poor adults experienced one or more signs of financial insecurity, such as being contacted by a bill collector or not being confident in their ability to pay an unexpected \$400 expense — almost as many as among those in poverty (about 58 percent).²²
- Some 29 percent of households with children with income between 100 percent and 130 percent of the poverty line couldn't consistently afford adequate food in 2017, not far below the 40 percent figure for those below the poverty line, Agriculture Department data show.²³

The difficulty of making ends meet on income near the poverty line becomes clear when one adds up the cost of basic needs. Various experts have estimated minimum living costs (leaving no room for eating out, retirement saving, entertainment, or other “discretionary” items such as children’s school trips or birthday parties), and the results consistently exceed the poverty line by a wide margin. For example:

- Just two parts of a family’s budget — fair market rent for a modest two-bedroom apartment in an average-cost county as estimated by HUD²⁴ and the cost of USDA’s lowest-cost,

²¹ Michael Karpman, Stephen Zuckerman, and Dulce Gonzalez, “Material Hardship among Nonelderly Adults and Their Families in 2017,” Urban Institute, 2018, https://www.urban.org/sites/default/files/publication/98918/material_hardship_among_nonelderly_adults_and_their_families_in_2017.pdf.

²² Steven Brown and Breno Braga, “Financial Distress among American Families: Evidence from the Well-Being and Basic Needs Survey,” Urban Institute, February 19, 2019, https://www.urban.org/research/publication/financial-distress-among-american-families-evidence-well-being-and-basic-needs-survey/view/full_report.

²³ Alisha Coleman-Jensen *et al.*, *Household Food Security in the United States in 2017*, U.S. Department of Agriculture, 2018, and CBPP calculations.

²⁴ \$1,109 a month, which is HUD’s “fair market rent” for 2018. CBPP analysis of HUD Fair Market Rent data at <https://www.huduser.gov/portal/datasets/fmr.html#2018>.

nutritionally adequate diet²⁵ — would cost over \$21,000 annually, or 83 percent of the poverty threshold for a two-adult family (\$25,465 in 2018). This leaves little room for child care, commuting costs, clothing, diapers, laundry, health care, and other necessities.

- Even in low-cost areas, estimates of the cost of necessities exceed the poverty line. A 2005 report commissioned by the West Virginia Governor’s Workforce Investment Division concluded that “the official poverty line is only 67 percent of the minimum amount necessary to meet family needs” without government assistance for a parent with two children in that state’s least expensive county.²⁶

Moreover, public opinion surveys indicate that most Americans would set the poverty threshold higher than the official poverty line.

- The median American considers the poverty line to be \$30,000 for a family of two adults and two children, according to a 2016 survey by the American Enterprise Institute and *Los Angeles Times*.²⁷ This is 24 percent higher than the official poverty threshold for such a family (\$24,339 in 2016).
- Poor and non-poor Americans largely agree on minimum living requirements. They had similar responses (\$29,000 and \$30,000, respectively) to the 2016 survey, which asked, “What do you think is the highest annual income [a] family of four can have and still be considered poor by the federal government?”
- A 1989 poll asked, “What amount of weekly income would you use as a poverty line for a family of four (husband, wife and two children) in this community?” This appears to be the only national poll to ask the question in this way, with a focus on what the poverty line *should* be. The public’s average response was nearly one-fourth higher than the official poverty line.²⁸

An even higher poverty line would result if the methods used to create the official poverty measure in the 1960s were repeated today. As the 1995 NAS expert panel on the poverty measure noted, “If the original approach were used to develop the poverty thresholds today, their value would be significantly higher.”

²⁵ \$642 a month, which is the cost of USDA’s Thrifty Food Plan for a married couple with children ages 6-8 and 9-11 in June 2018. Thrifty Food Plan, <https://fns-prod.azureedge.net/sites/default/files/CostofFoodJun2018.pdf>.

²⁶ Governor’s Workforce Investment Division and Center for Women’s Welfare, *The Self-Sufficiency Standard for West Virginia*, 2005, <http://selfsufficiencystandard.org/sites/default/files/selfsuff/docs/WV2005.pdf>.

²⁷ Robert Doar, Karlyn Bowman, and Eleanor O’Neil, “2016 Poverty Survey: Attitudes Toward the Poor, Poverty, and Welfare in the United States,” American Enterprise Institute and *Los Angeles Times*, August 18, 2016, <http://www.aei.org/publication/2016-poverty-survey/>.

²⁸ The weekly response, multiplied by 52 weeks and inflated to 1989 dollars, was \$15,646 a year, or 23 percent above the comparable poverty line (\$12,675). More frequently, pollsters have asked Americans a related question about the minimum income needed to “get along” in their communities; the response to this question in 1989 was even higher: \$21,788 annualized. See Denton R. Vaughan, “Exploring the Views of the Public to Set Income Poverty Thresholds and Adjust Them Over Time,” updated February 2004, <https://www.census.gov/content/dam/Census/library/working-papers/2004/demo/wkppov20-cen.pdf>.

Analysts at BLS and the Census Bureau conducted such a calculation in 2008. The original poverty threshold was calculated by multiplying the cost of a minimum diet by three to reflect the fact that the average family spent roughly one-third of its income on food, according to the 1955 Household Food Consumption Survey. The BLS and Census analysts found that the average ratio of food spending to total family resources had since risen from 1:3 to between 1:6.2 and 1:9.8, depending on the approach used. The least generous of the poverty thresholds they calculated using these updated ratios was more than one and one-half times the current poverty threshold.²⁹

Other experts have concluded that the official poverty line is too low. The 1995 NAS panel concluded that the official poverty line — designed in the 1960s based on 1955 spending patterns — was out of date and proposed raising the poverty thresholds³⁰ and making other changes to the poverty measure. In accordance with the panel’s guidance, federal analysts worked carefully with researchers over a number of years (see discussion below) to develop the supplemental poverty measure (SPM), which more fully incorporates the current cost of basic living expenses. Some areas of consumption — like child care and health care — were not incorporated into the SPM poverty threshold but instead are subtracted from families’ income when determining if a family’s resources were above or below the threshold. Even excluding these important (and expensive) costs, and consistent with the evidence cited above, this more careful accounting results in a poverty line that is higher than the official poverty line for most types of households.³¹

Shortfall Between Official Poverty Line and a Minimum Living Standard Is Growing

Considerable research over the years has identified various ways in which the poverty line has failed to keep pace with families’ basic needs. For example, the 1995 NAS panel’s report notes that the official poverty line does not fully include certain costs that low-income families increasingly face, such as child care.³²

²⁹ Thesia I. Garner and Kathleen S. Short, “Creating a Consistent Poverty Measure Over Time Using NAS Procedures: 1996-2005,” BLS Working Paper 417, April 2008, <https://www.bls.gov/osmr/pdf/ec080030.pdf>.

³⁰ *Measuring Poverty: A New Approach*. Washington, DC: The National Academies Press, 1995. The panel recommended raising the poverty line between 14 percent and 33 percent compared with the “comparable current level.”

³¹ Direct comparisons of the SPM and OPM poverty thresholds are complicated by conceptual differences in the scope of the thresholds and resources. For example, the SPM thresholds treat necessary child care, other work expenses, and necessary medical expenditures as a subtraction from resources, while the OPM thresholds implicitly include only small amounts for each of these needs insofar as they would have been part of an average family’s consumption in 1955. On a comparable basis, however, the SPM establishes a slightly higher level of needs, as indicated by the fact that the SPM poverty rate (13.9 percent in 2017) is slightly higher than the official poverty rate (12.3 percent). Liana Fox, *The Supplemental Poverty Measure: 2017*, U.S. Census Bureau, Current Population Reports Series P60-265, September 2018.

³² In reviewing the OPM’s limitations, the NAS panel led with its omission of rising child care needs:

Over the period from 1955 (the date of the survey underlying the original poverty thresholds) to 1993, the percentage of women with a child under age 6 who were in the labor force more than tripled. . . . As a consequence of these changes, there are many more families who must make arrangements for child care in order to earn at least some of their income. Child care expenditures were a negligible component of consumer expenditures in the 1950s; at that time, one could readily assume that in most U.S. families a parent was available at home. Today, one can no longer make that assumption, and many families face high out-of-pocket child care expenses. . . . The current poverty measure does not distinguish between

A poverty line should also capture rising living standards. Items such as plumbing or electricity that were once unavailable have become minimum requirements of acceptable living. More recently, access to a computer and internet service have rapidly become necessities for finding a job, completing schoolwork, or shopping less expensively online.

Those responsible for developing the official poverty measure recognized that family needs and living standards would likely rise slightly faster than inflation over time and assumed that the official poverty line would rise faster, too. Economist Mollie Orshansky, who in the 1960s developed what became the official poverty measure, wrote in 1963 that “the standard of adequacy changes with time.” Orshansky’s supervisor at the Social Security Administration, Ida Merriam, commented in 1967, “obviously today’s [official poverty] measure, even if corrected year by year for changes in the price level — the purchasing power of money — should not be acceptable twenty, ten or perhaps even five years hence.”

In a similar vein, Republican members of the Joint Economic Committee, commenting on the new poverty line in 1964, wrote, “In America, as our standard of living rises, so does our idea of what is substandard.”³³

Most Americans apparently agree. Over time, public opinion about the smallest amount of money needed to get along in their community has risen about as fast or faster than the CPI-U, according to Gallup polling data from 1967 to 2007.³⁴ These poll-based levels thus have risen considerably faster than the slower-growing inflation measures the Administration has cited as candidates for adjusting the poverty line each year, such as the chained-CPI and the PCEPI.

Other governmental measures of living standards have long tended to rise slightly faster than the CPI-U. For example, family budgets developed from 1947 to 1959 by the Labor Department and designed to capture a “modest but adequate” living standard rose 37 percent more than the CPI-U over that period.³⁵

The Administration should not adopt a change that would lower the official poverty threshold over time, given all this evidence of the poverty line’s current inadequacy. And it is concerning that

families with and without these expenses, either by having separate thresholds for working and nonworking families or by deducting child care costs from earnings; hence, the current measure does not accurately portray the relative poverty status of these two groups.

National Research Council. *Measuring Poverty*.

³³ Gordon M. Fisher, “Is There Such a Thing as an Absolute Poverty Line Over Time? Evidence from the United States, Britain, Canada, and Australia on the Income Elasticity of the Poverty Line,” August 1995, <https://www.census.gov/content/dam/Census/library/working-papers/1995/demo/fisher3.pdf>.

³⁴ From 1967 to 1987, the “get along” level rose about as much as the CPI-U (it rose 0.9 percent more). From 1987 to 2007, it rose about 3.9 percent faster. Jeffrey M. Jones, “Public: Family of Four Needs to Earn Average of \$52,000 to Get By,” Gallup News Service, February 9, 2007, <https://news.gallup.com/poll/26467/public-family-four-needs-earn-average-52000-get.aspx>; and CBPP calculations.

³⁵ David S. Johnson, John M. Rogers, and Lucilla Tan, “A Century of Family Budgets in the United States,” *Monthly Labor Review*, May 2001, <https://www.bls.gov/opub/mlr/2001/05/art3full.pdf>.

OMB's notice floated such a change without providing any analysis of these issues, or seeking public comment on them.

OMB Should Seek Extensive Expert Discussion and Input Before Altering Poverty Line

Prior to redefining the poverty line, OMB should not only direct federal statistical agencies to gather and publish sufficient data and research on that data, as previously noted, but follow a careful process of garnering outside research expertise and engaging in extensive consultation, consistent with recent precedent. The deliberative processes surrounding the creation of and revisions to the SPM provide a useful model.

The SPM originated with a thorough deliberative process: starting in June 1992, an NAS panel of experts spent two and a half years working, with the help of research commissioned by a range of scholars, to weigh possible changes to the poverty measure and the principles and technical issues involved in creating an internally consistent set of poverty measurement principles that would be consistent with available research literature and widely accepted by a range of academic experts, policymakers, and the public. The public release of the panel's recommendations was followed by public presentations and several years of additional published research by the Census Bureau and BLS, congressional hearings, and consultations with academic experts and other stakeholders prior to the formation of the federal interagency technical working group that finally created the SPM in 2010. This process was followed even though the resulting new measure did not affect the long-standing official measure (which was continued).

To be sure, the lengthy process reflected the fundamental nature and breadth of changes between the official poverty measure (OPM) and SPM, but even quite small revisions to the SPM (such as minor adjustments to the calculation of the thresholds to improve conceptual consistency with the SPM's resource measure) have involved multiple iterations of internal and external consultation over a period of years and included the release of public working papers and meetings with academic poverty experts.

Moreover, changes to the OPM are significantly more consequential than changes to the SPM. For example, Census Bureau OPM poverty statistics inform public and legislative debate and directly govern the distribution of billions of dollars of federal funding — Title I education funding and funding for child care are just two examples. And, the Department of Health and Human Services (HHS) uses the official poverty thresholds to create the poverty guidelines, which are the basis of eligibility limits for scores of assistance and health care programs, as discussed below.

For these reasons, changes to the OPM should be considered even more carefully than changes to the SPM, with significantly more data, research, analyses, consultation with experts in the field, and meaningful opportunity for public comment not only on the proposed change but on the underlying evidence on which that proposal is based.

OMB Should Not Lower Eligibility for Federal Programs

As noted, changes to the OPM are also far more consequential than changes to the SPM — and would warrant an even more careful, deliberate, and transparent process — because they affect the HHS poverty guidelines and program eligibility.

Because OMB said it is not seeking comment on how changing the official poverty line would affect the HHS poverty guidelines and program eligibility, we are not submitting comprehensive comments on that issue. But the limited and rough analysis we have undertaken is sufficient to show that the proposal would ultimately make millions of people worse off. For example, after ten years of updating the poverty line using the chained CPI, we estimate that hundreds of thousands of people would lose eligibility for Medicaid and CHIP, the Medicare Part D Low-Income Subsidy Program, Medicare Saving Programs, and ACA financial assistance, while millions would pay higher premiums due to reduced premium tax credits.³⁶ There would also be program eligibility impacts in SNAP, the National School Lunch Program, the School Breakfast Program, and the Special Supplemental Nutrition Program for Women, Infants, and Children.

We strongly oppose changes that would lower eligibility for health care and basic assistance programs, worsening uninsured rates, food insecurity, and other forms of hardship.

Moreover, it would be highly irresponsible for OMB to consider a change that would harm millions of people without undertaking serious analysis of these effects. The May *Federal Register* notice does not address these impacts at all, so the public was denied sufficient opportunity to evaluate these impacts and comment on whether they would be positive or negative for the country — the ultimate test for policy changes.

OMB should work with other federal agencies to:

- Develop a complete list of programs that would be affected by the change.
- Develop its own, more refined estimates of how many people would lose or receive less help from these programs as a result of the proposed change, including the characteristics of those losing benefits (e.g., seniors, people with disabilities, children).
- Estimate how those figures would change over time, including beyond the first decade of the policy.
- Analyze how the loss of eligibility for health coverage programs would affect outcomes such as access to care, financial security, health, and uncompensated care costs for states and providers.
- Analyze the impact of reduced premium tax credits on the ACA marketplace risk pool, especially over time as the cuts deepen.
- Analyze how the loss of nutrition assistance would affect outcomes such as food insecurity and overall health and well-being.

³⁶ See Aviva Aron-Dine and Matt Broaddus, “Poverty Line Proposal Would Cut Medicaid, Medicare, and Premium Tax Credits, Causing Millions to Lose or See Reduced Benefits Over Time,” Center on Budget and Policy Priorities, May 22, 2019, <https://www.cbpp.org/research/poverty-and-inequality/poverty-line-proposal-would-cut-medicaid-medicare-and-premium-tax>. As the analysis explains, “these estimates are subject to significant uncertainty, but, taken as a whole, they provide a snapshot of the wide-ranging impact the Administration’s proposal would have on health programs.” In particular, the estimates are limited by our inability to take into account projected changes in the income distribution over time.

- Analyze the long-term impact of eligibility and benefit changes on children’s health, education, and workforce outcomes.
- Analyze the impact of changing the federal poverty guidelines on state or local programs that use the guidelines to determine eligibility.
- Analyze the impact of changing the federal poverty guidelines on states and localities, including those that would seek to mitigate the harm such a federal policy change would have on their residents.
- Analyze how impacts in various programs would vary across geographic areas, age, and racial and ethnic groups.
- Weigh how changes in eligibility and benefits for a range of programs might cumulatively affect children’s long-term health, education, social behavior, and self-sufficiency, and the resulting consequences for communities and the nation.

OMB should direct federal program agencies, in conjunction with statistical agencies, to undertake in-depth analysis of all of these issues, publish its findings and give the public an opportunity to comment on whether a change should be made in light of the likely consequences for eligibility for each affected program and on outcomes such as uninsured rates, food insecurity, and other forms of hardship.

Thank you for considering our comments. If you would like additional information, please don’t hesitate to contact Aviva Aron-Dine, Arloc Sherman, or Paul Van de Water at the Center on Budget and Policy Priorities (202.408.1080).