

MEMORANDUM

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SUBJECT: Directive No. 14; FR OMB-2019-0002.

These comments focus on the first two requests in *Request for Comment on the Consumer Inflation Measures Produced by Federal Statistical Agencies, FR OMB-2019-0002*.

- (1) The strengths and weaknesses of the indexes for different applications or uses;
- (2) The strengths and weaknesses of the use of the CPI-U to make annual adjustments to the OPM, as established in OMB's Statistical Policy Directive #14, and discussion of potential alternative indexes.

As stated in the FR notice: "This policy has not been reevaluated since the introduction of new consumer inflation measures." In fact, this policy has never been reevaluated. It is not clear why OMB should restrict the request for comments to only about the index to adjust the thresholds and not request comments regarding all aspects of OMB Statistical Directive 14 (listed below), which are also out of date. Directive No. 14 points to the P-60 series as providing the basis for income and poverty. However, the OPM, SPM (P60-265 for 2017), income and health insurance estimates are all released in the P-60 series. One option to update Directive 14 is to allow the SPM to have a similar status as the OPM and modify the sentence: "Other measures of poverty may be developed for particular research purposes, and published, so long as they are clearly distinguished from the standard data series." Directive 14 also states that the definition of poverty was "...developed by the Social Security Administration and revised by a Federal Interagency Committee in 1969." This measure has been shown to be out of date by both a National Academy of Sciences report, *Measuring Poverty*, and the Observations of the Interagency Technical Working Group.

As stated in comment request (2), responses can discuss "...potential alternative indexes." Poverty thresholds should be adjusted using a measure of the standard of living and not a cost-of-living index, as recommended by the NAS report, [Measuring Poverty](#), and the [Interagency Technical Working Group](#). Both of these reports recommended that inflation should not be used to update poverty thresholds since poverty should reflect the standard of living defined for the period. These reports provided alternative indexes to update the thresholds using either the change in the median spending on food, clothing, shelter and utilities (FCSU) or updating with the changes in the spending between the 30th and 36th percentiles of the distribution of FCSU. Either of these indexes provides a more accurate index to update poverty thresholds in order to capture changes in the standard of living.

Comment request (1) specifically refers to the list of inflation indexes included in the FR notice. As most research demonstrates, the C-CPI-U is a more accurate measure of the overall cost-of-living as the current CPI-U is based on a Laspeyres formula that is usually higher than a "true" cost-of-living index. However, using the same index for people in poverty (or even low income households) is likely to be misleading. As suggested by NAS report, [At What Price](#), BLS should produce price indexes by

demographic groups. In Recommendation 8.1, the report states: *A first objective might be the production of indexes for a few commodity categories and several demographic groups.*

Researchers at BLS have shown that inflation could differ by demographic group (see [Cage et al.](#)) Others have shown that inflation indexes for the poor or low income are higher than those for high income (for example see [Kaplan and Schulhofer-Wohl](#) (2017) and [Jaravel](#) (2017)). While the C-CPI-U is more accurate since it accounts for substitution, research shows that poor households (or households receiving government transfers) may not be able to substitute, and hence, may have lower substitution bias (see [Garner et al.](#) (1996)). Finally, the FR notice recognizes these differences in inflation rates by demographic group when discussing the CPI-E for the elderly, which rises more than the CPI-U. This suggests that a higher inflation rate for certain groups may be appropriate.

Text of Statistical Directive 14

For the years 1959-1968 the statistics on poverty contained in the Census Bureau's Current Population Reports, Series P-60, No. 68, shall be used by all executive departments and establishments for statistical purposes. For the years 1969 and thereafter, the statistics contained in subsequent applicable reports in this series shall be used.

A number of Federal agencies have been using statistical series on the number of persons and families in poverty, and their characteristics, in analytical and program planning work. The basis for these series has been the classification of income data collected by the Bureau of the Census in accordance with a definition of poverty developed by the Social Security Administration and revised by a Federal Interagency Committee in 1969. This definition provides a range of income cutoffs adjusted by such factors as family size, sex of family head, number of children under 18 years of age, and farm-nonfarm residences.

The Bureau of the Census series continues the Social Security Administration definition for the base year, 1963, except that the differential between poverty levels for farm and nonfarm families is reduced from 30 percent to 15 percent. Annual adjustments in Census series are based on changes in the average annual total Consumer Price Index (CPI) instead of changes in the cost of the U.S. Department of Agriculture's Economy Food Plan.

The establishment of this standard data series does not preclude departments and agencies from more detailed analyses or from publication of tabulations for specialized needs although, where applicable, totals must agree with totals published by the Bureau of the Census. Other measures of poverty may be developed for particular research purposes, and published, so long as they are clearly distinguished from the standard data series.

The poverty levels used by the Bureau of the Census were developed as rough statistical measures to record changes in the number of persons and families in poverty and their characteristics, over time. While they have relevance to a concept of poverty, these levels were not developed for administrative use in any specific program and nothing in this Directive should be construed as requiring that they should be applied for such a purpose.