CENTER ON POVERTY and INEQUALITY
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ECONOMIC SECURITY and OPPORTUNITY INITIATIVE

Measuring Poverty:

Why It Matters, & What Should & Should Not Be Done About It

Statement of Indivar Dutta-Gupta

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Introduction

Thank you, Chairman Connolly, Ranking Member Meadows, and members of the subcommittee. My name is Indivar Dutta-Gupta, and I am the Co-Executive Director at the Georgetown Center on Poverty and Inequality, a nonpartisan policy research center at Georgetown University focused on expanding economic inclusion in the United States, with a cross-cutting focus on racial and gender equity. I am a former House Ways and Means Committee staffer, who helped lead Congressional efforts to advance an alternative poverty measure similar to what has become the Census Bureau's preferred alternative poverty measure. This is an issue I have researched, investigated, and otherwise worked on for over a decade. I am honored to come before this committee to speak to the importance of an accurate poverty measurement for children, families, and our society as a whole.

Overview

We typically think of the poverty line as a threshold of economic resources or material deprivation—a floor for basic living standards for everyone in our society.[1] Often, we use a measure of income poverty to represent this floor.[i] Research strongly suggests that every family and every individual—regardless of race or gender—require a stable and strong foundation, including adequate income, to be healthy and able to contribute to their communities and succeed in school, the labor market, and beyond.[2] Measuring and understanding economic hardship and deprivation is essential to creating a society in which everyone has that basic foundation, with tangible benefits for all of us.

Yet, the Official Poverty Measure (OPM) is largely based on 1950s household spending patterns and a 1960s emergency food diet, with inflation updates over the past half century.[3] The OPM's antiquated assumptions have vast implications for hundreds of billions of dollars of funding for anti-poverty programs and may mean that we have an overly-optimistic picture of income deprivation in this country. Indeed, there is a strong case for new approaches to measuring poverty. The Obama Administration made significant progress in improving poverty measurement through a robust intergovernmental working group that developed and advanced an alternative measure based on extensive expert work by a National Academy of Sciences panel singularly focused on poverty measurement.[4] Disappointingly, the Trump Administration is now considering a proposal to change the poverty measure in a way that is technically questionable, economically unwise, and morally troubling.

Last year, the Office of Management and Budget (OMB) proposed to change a single component—the annual inflation adjustment of the poverty threshold—of the OPM.[5] While this may appear to be a purely technical correction, it is not. The proposal would change the inflation rate used to calculate the

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[i] For this testimony, I use "poverty" and "income poverty" interchangeably.

OPM,[ii] likely using the Chained Consumer Price Index for All Urban Consumers (C-CPI-U), which grows more slowly than the currently-used Consumer Price Index (CPI-U). The proposed change, which itself is technically dubious, would gradually shrink the federal poverty line relative to its current trajectory. In turn, fewer people would be eligible for foundational public support programs, including food assistance and health coverage.[6] The change would also shrink the reach and impact of other vital community-based support programs, such as School Breakfast and Head Start, so that fewer people could access and benefit from them. As a result, this change would make an increasing number of people in our country markedly worse off.

Arbitrarily singling out and adjusting one aspect of the poverty measure to determine that a smaller number of people experience unacceptably low incomes than currently calculated would reduce the poverty measurement's accuracy and usefulness for the federal government and the many other stakeholders who rely on it.

In my testimony, I make five overarching points:

1. **Income poverty—and how we measure it—should concern us all**, as it indicates higher chances of experiencing hardship and long-term harms, and is more commonly experienced and relevant to policymakers than is often appreciated.
2. **The official poverty threshold is too low**, as it is based on outdated assumptions and data, fails to align with actual need, and does not reflect the realities of many people experiencing poverty.
3. **The OMB proposal likely would make the official poverty measure less meaningful and useful** by using a misaligned inflation index that would lower the official poverty threshold, falling farther short still of a plausible household budget for maintaining a decent standard of living.
4. **The OMB proposal would harm millions of children and families struggling to make ends meet** by cutting a growing number of them out of foundational support programs like food assistance, health care, and other lifelines.
5. **There are more sound approaches for improving poverty measurement in the United States** to ensure that it is more complete, meaningful, and accurate, and ultimately lead to greater economic security and opportunity for all.

[ii] The OMB sought public comment on the "strengths, weaknesses, and best practices for the application of" a variety of inflation measures. "Request for Comment on the Consumer Inflation Measures Produced by Federal Statistical Agencies." Office of Management and Budget, 7 May 2019. Available at https://www.federalregister.gov/documents/2019/05/07/2019-09106/request-for-comment-on-the-consumer-inflation-measures-produced-by-federal-statistical-agencies. However, news coverage that was based in part on interviews with Trump Administration officials makes clear that the OMB notice was intended to facilitate smaller nominal increases in the poverty line over time through the use of the C-CPI-U. Karni, Annie. "Trump Administration Seeks to Redefine Formula for Calculating Poverty." New York Times, 7 May 2019. Available at https://www.nytimes.com/2019/05/07/us/politics/trump-poverty-level-proposal.html and Sink Justin. "Trump May Redefine Poverty, Cutting Americans From Welfare Rolls." *Bloomberg*, updated 6 May 2019. Available at https://www.bloomberg.com/news/articles/2019-05-06/trump-poverty-line-inflation.

1. Income Poverty & How We Measure it Should Concern Us All

Measuring income poverty is important because of the extraordinarily high costs of poverty to children, individuals, families, communities, and the economy as a whole. Poverty measurement provides us essential information about how well the economy is performing overall. It helps us understand financial hardship and the effects of poverty on government, communities, and families. It also reveals a picture of who experiences income deprivation, which is more common than many assume, yet unevenly distributed. As such, policymakers rely heavily on poverty measurements for targeting resources and understanding the extent to which their economic policies are having the desired effects.

1.1. Income Poverty is a Key Economic Indicator

Measuring income poverty is key to understanding the health of our economy. A well-functioning economy ensures widespread economic prosperity, including for people with the lowest incomes. The vast majority of U.S. households depend on income tied to current work (e.g., wages and salaries) or recent work (e.g., unemployment insurance compensation and Social Security benefits). Our reliance on income tied to formal work means that the performance of the labor market is closely tied to poverty rates. Indeed, macroeconomic performance is a key driver of poverty, with truly full employment among the most effective anti-poverty strategies.[7] In contrast, an economy where poverty is not declining, even as incomes for the top ten percent of households rises substantially, is not well-functioning. Of course, income poverty as a key economic indicator is only as useful as it is accurate, meaningful, and methodical.[8]

1.2. Income Poverty is Associated with Current Material Hardship for Families

Income poverty is predictive of experiencing material hardships, making the measurement of poverty important for targeting resources to families. Families with low incomes report higher rates of material hardship than families with higher incomes.[9, 10] As a result, income poverty may be a useful broad measure of material hardship, or the inability to maintain a decent standard of living, including by meeting basic needs like housing, food, and medical care.[11] For example, families experiencing poverty in 2018 had a 35 percent chance of experiencing food insecurity, compared to 29 percent for families with incomes between 100 percent and 185 percent of the federal poverty line, and five percent for families with incomes above 185 percent of the federal poverty line.[12] For parents with low incomes living with children under age 19, more than two-thirds reported “problems paying for housing, utilities, food, or medical care” in 2017, as did nearly three-quarters of parents with low incomes and with young children.[13] And compared to eight percent of parents with higher incomes, nearly one-third of parents with low incomes faced housing hardship, such as eviction or inability to pay rent.[14]

1.3. Income Poverty Has Long-Term Individual Consequences That Affect Us All

The strongly negative social and economic outcomes associated with poverty make the careful measuring and targeting of poverty for reduction crucial for advancing well-being and prosperity for all of us. Experiencing poverty, especially childhood poverty, is both associated with other forms of hardship and deprivation and itself causes harmful social and economic outcomes.[15, 16, 17] These harmful outcomes mean that childhood poverty costs our economy more than $1 trillion annually.[18] Poverty results in greater spending on health care and child welfare due to higher rates of infant mortality and obesity;[19] higher likelihood of experiencing chronic conditions, like diabetes;[20] and higher likelihood of child homelessness[21]—all social costly outcomes. Poverty also leads to greater public spending on law enforcement and incarceration[22] due to higher arrest rates, higher imprisonment rates,[23] and longer sentence lengths.[24] Poverty results in lower earnings and employment rates,[25] and lower levels of educational attainment,[26] in turn reducing local, state, and federal tax revenues.

1.4. Poverty is Widespread, but Unevenly Distributed

Measuring poverty helps us paint a picture of economic deprivation. We typically think of the poverty line as a minimal threshold of economic resources or material deprivation—a floor for basic living standards for everyone in our society.[27] In 2018, the most recent year for which data is available, 38.1 million people fell below the OPM's[28] poverty threshold for their family size and structure—more than the resident populations of Pennsylvania, Ohio, and Illinois combined.[29] This number includes nearly 11.9 million children under 18[30] and more than 17 million people experiencing deep poverty, with incomes below half of the poverty line.[31]

Significant social and economic barriers, such as discrimination in the labor[32] and housing markets,[33] segregation,[34] systemic racism,[35] and mass incarceration[36, 37] have contributed to elevated poverty rates among some communities. African Americans, Latinx people, and American Indians and Alaskan Natives faced higher poverty rates than any other groups in 2018 (22 percent, 19 percent, and 24 percent, respectively).[38] Women are 38 percent more likely to face poverty than men, and poverty rates are even higher for women of color[39]—likely influenced by historical and structural factors such as unequal pay, disproportionate unpaid caregiving responsibilities, and gender and racial discrimination.[40] Despite higher labor force participation,[41] immigrants overall are more likely to experience poverty than U.S.-born people, though the poverty rate of naturalized citizens was lower than for non-citizens and U.S.-born citizens.[42] Poverty has continued to be geographically concentrated in the U.S., as the number of people living in high-poverty areas—where 40 percent or more people live below the federal poverty line—has increased,[43] fueled by legacies of racist housing policies.[44] The poverty rate for people with disabilities is twice the rate than that for people without disabilities.[45] One in five LBGTQ+ people live in poverty and poverty rates are particularly pronounced among transgender people and cisgender bisexual women.[46]

1.5. Nearly All of Us Risk Facing Economic Hardship

Measuring income deprivation is directly relevant to the lives of a sizeable majority of people in our country. Nearly all of us risk facing serious economic hardship or deprivation. Between the ages of 25 and 60, more than 60 percent of people in the United States will experience at least one year in the bottom 20 percent of the income distribution.[47] Two-thirds of people in the United States will either experience at least a year of unemployment or have a head-of-household family member experience a year of unemployment during their working years.[48] Poverty and economic hardship are not limited to discrete, small portions of the population—most of us, at some point in our lives, are likely to struggle to make ends meet.

1.6. The Official Poverty Measure is Widely Integrated into Our Nation's Policies

Policymakers rely heavily on our poverty measure. For more than 60 years, we have attempted to calculate the floor for living standards using the OPM, often called the "federal poverty line" or, simply, the "poverty line." The OPM is comprised of a resource definition and poverty threshold, which is adjusted for family size and composition. Published each year by the Census Bureau, official poverty estimates are calculated by comparing a family's pre-tax income to the appropriate threshold.[49]

This OPM serves two main purposes:

1. To understand the needs of people and communities, and
2. To determine eligibility for and distribution of a variety of public (and private) spending.[50]

The first purpose allows us to understand the complexity and breadth of income deprivation in our communities, and to determine the extent to which our economy and society align with our values and the extent to which prosperity is widely shared. For the second purpose—the distribution of funding—how we measure poverty directly affects the distribution of public dollars. The Department of Health and Human Services uses the Census Bureau's poverty threshold to calculate federal poverty guidelines, which are, in turn, used to determine household and community eligibility for benefits and services.[51] At the household level, the poverty guidelines help determine whether individual families are eligible for programs, such as Medicaid or the Supplemental Nutrition Assistance Program (SNAP), Head Start, and the School Lunch Program.[52] For some programs that have scaled benefits, like SNAP or the School Lunch program, the poverty guidelines also help determine an individual family's benefit size. At the community level, the poverty measure helps determine area eligibility for federally funded programs such as Community Development Block Grants (CDBG),[53] Community Services Block Grants (CSBG),[54] and others. In total, over 80 federal programs use the OPM in some fashion or another to distribute benefits, funds, and services.[55]

Both tasks—creating a statistical picture of poverty and determining the distribution of resources—require an accurate, complete poverty measurement consistent with lived experiences of income deprivation in the United States.

2. The Official Poverty Threshold is Too Low

The OPM's poverty threshold is too low. That is not surprising, as the OPM is based on out-of-date, overly simplistic assumptions (57-year-old analysis of 65-year-old-data) about household spending patterns. The measurement's insufficient baseline is further weakened each time it is updated using an index that rises less quickly than prevailing living standards. As the OPM's creator Mollie Orshansky, a Social Security Administration researcher, put it in 1969, "the best you can say for the measure is that at a time when it seemed useful, it was there."[56]

2.1. The Official Poverty Measure is Based on Outdated Assumptions

In 1963, Mollie Orshansky developed the first national poverty measure. Orshansky analyzed a 1955 U.S. Department of Agriculture (USDA) survey of household food consumption and found that a typical family of three or more spent about one-third of after-tax income on food.[57] She then created a threshold equal to three times the cost of the most recent USDA Economy Food Plan,[58] which was intended to be nutritionally adequate temporarily or in emergency situations only.[59] As Orshansky wrote, the food plan also assumed that "the homemaker is a good manager and has the time and skill to shop wisely, she must prepare nutritious, palatable meals on a budget" for a family of four.[60] And thus, the first poverty measurement was born. For several years, the poverty threshold was recalculated in a similar way each year, comparing a family's before-tax income against this threshold that was based on the after-tax income families used for their food budgets.[61]

The Office of Management and Budget (OMB) issued Statistical Policy Directive 14 in 1978, effectively codifying this Official Poverty Measure (OPM), but shifting from future reliance on USDA meal plans to annual inflation updates using the Consumer Price Index (CPI-U).[62] Today, the OPM is based upon this threshold, adjusted each year based on inflation.[63] The Census Bureau estimates that for 2019, the weighted average poverty threshold for families with four people will be $26,167 and $13,016 for individuals.[64]

The OPM's baseline measurement makes the assumption that families spend roughly one-third of their budgets on food—which is no longer true. Families, especially low-income families, have spent smaller and smaller portions of their budgets on food since the creation of the OPM. In 1995, several studies pegged food expenses at one-seventh of household expenditures rather than the original one-third.[65] As of 2008, analysts from the Bureau of Labor Statics and the Census Bureau found that food spending had declined to one-sixth to one-tenth of income, depending on the research methodology.[66]

2.2. Aspects of the Official Poverty Measure Remain Useful, But the Measure & its Thresholds are Inadequate

We typically think of poverty measurement as related to our living standards, which change over time and across place. In *An Inquiry into the Nature and Causes of the Wealth of Nations*, economist and philosopher Adam Smith noted that while a linen shirt was considered a luxury in the past, and a linen shirt was not strictly "a necessity of life," lacking one nevertheless should be considered evidence of poverty in much of late 18th century Europe.[67] Centuries later in 1964, and an ocean away, Republican members of the Joint Economic Committee expressed similar sentiments, writing, "In America as our standard of living rises, so does our idea of what is substandard."[68]

Over the past 65 years, our costs and standards of living have adapted as technology and health care have advanced and costs for goods and services such as housing, child care, and health care have continued to rise. Yet, despite major shifts in buying habits and substantial growth in living standards, the official poverty threshold has not kept pace, rising only based on inflation. As a result, the poverty line measurement has become increasingly detached from our lived experiences. To be sure, the OPM generally rises and falls as might be expected throughout the business cycle. And the OPM's simple resource definition can be adapted and used efficiently and effectively to determine program eligibility. But a wealth of evidence suggests relying on a frozen-in-time household budget and updating it only for overall inflation is deeply inadequate for measuring income deprivation.

While the OPM attempts to capture price growth for goods and services, it does not capture the cost of changing living standards and subsequent shifts in buying habits. In recent decades, families with low incomes have spent larger portions of their budgets on necessities like housing, transportation, and child care. For example, in 2017, families in the lowest income quintile spent 40 percent of their income on housing and related needs, compared to 33 percent for all households in general.[69] As of 2014, low-income families spent almost 16 percent of their incomes on transportation, compared to 11 percent for middle-income families and eight percent for high-income families.[70] Costs for necessities—housing and health care, in particular—have soared, while wages remain stagnant.[71] Between 1960 and 2016, the median renter's income grew only five percent, while the median rent grew 61 percent.[72] Additionally, as women entered the workforce at increasing rates in the 20th century, many families required new child care costs and higher spending for prepared foods outside the home.[73] Child care costs can be overwhelming to families when they have low incomes. In 2019, the average weekly child care payment for families with children under five was $171, about one-tenth (10.1 percent) of the family's budget, but families with low incomes spent even larger portions of their budgets on child care. Families making less than $1,500 a month with children under five spent more than half (52.7 percent) of their incomes on child care expenses.[74]

Shifts in culture and technology have also created new necessities not fully accounted for by the OPM. Cars, refrigerators, and stoves have become essential for job opportunities, health, and nutrition. As people in the United States increasingly rely on internet and technology for job opportunities, health care, education, and safety, spending for broadband, cell phones, and computers has risen.[75] To participate in our economy and society overall, families with low incomes have had to add many of these necessities to their already-stretched budgets.

2.3. Alternative Methods of Calculating Income Deprivation & Adequacy Suggest that Poverty Thresholds & Rates Should be Higher

Alternative technical updates to the official poverty measure, the Census Bureau's preferred alternative poverty measure, and public opinion suggest that poverty thresholds and rates should be higher.

Alternative methods of updating the poverty measure would place the poverty threshold higher. My colleagues at the Georgetown Center on Poverty and Inequality estimated that the poverty line for a family of four would be $61,452 in 2018, if we were to recalculate the OPM's baseline measurement and update it for current food consumption. (To be sure, this estimate underscores the cherry-picking involved in the Trump Administration's proposal, and the flaws in relying on a single category of expenses for setting poverty thresholds.)

Researchers at Columbia University and the London School of Economics have used recent retail inflation research to estimate higher poverty thresholds that may better reflect the lives of people with low incomes. If their income-specific inflation rate were used to calculate the poverty rate from 2004 to

2018, 3.2 million additional people would have fallen below the poverty line—including 1.1 million children—and over 835,000 additional people would have been classified as living in deep poverty.[76]

The Census Bureau uses an alternative poverty measure, the Supplemental Poverty Measure (SPM), which is based on a wider range of necessary expenditures, such as clothing, shelter, and utilities, as well as food. The SPM also factors in noncash benefits used to meet basic needs (such as SNAP), as well as taxes, work-related expenses (including child care), and medical out-of-pocket expenses.[77] The SPM results in modestly higher poverty thresholds[78] that are more consistent with public opinion, as well as modestly higher poverty rates. In 2018, the SPM threshold for a two-adult, two-child family was $28,166 for renters,[79] and the overall SPM poverty rate was 12.8 percent compared to the official poverty measure rate of 11.8 percent.[80]

The American public recognizes that the poverty threshold is too low. In a 2016 American Enterprise Institute and Los Angeles Times poll, the median of what respondents believed the poverty line to be was $30,000 for a family of four, 24 percent higher than the poverty threshold for a family of four at the time ($24,339).[81]

2.4. Basic Needs Budgets Suggest Financial Needs Extend Far Higher Up the Income Spectrum than the Federal Poverty Line

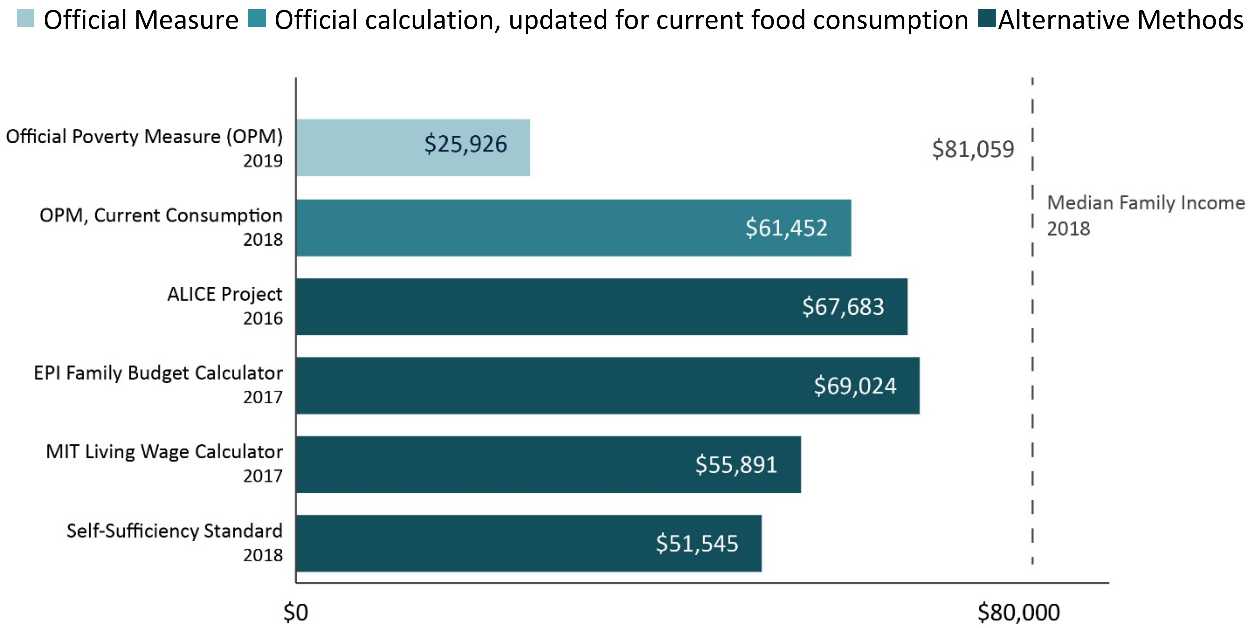
An array of expert-devised methods have attempted to set basic needs budgets for families. These measures account for some of the necessary expenses not fully included in the OPM, and attempt to reflect lived experiences of hardship and deprivation in the United States.[iii]

The National Center on Children in Poverty (NCCP) created the Family Resource Simulator to illustrate the impact of work supports, including income tax credits and child care assistance.[82] The simulator suggests families typically need nearly twice as much as the official poverty level to afford rent and utilities, child care, health insurance premiums, out-of-pocket medical expenses, transportation, debt and payroll taxes.[83] The University of Washington's Self-Sufficiency Standards,[84] the Economic Policy Institute's Family Budget Calculator[85], and the Massachusetts Institute of Technology's Living Wage Calculator,[86] each budget-based measures of real-world costs, come to similar conclusions. United Way's ALICE Project offers additional metrics to understand hardship among "Asset Limited, Income Constrained, and Employed people."[87] The OPM is markedly lower than many of these alternative, budget-based standards of living and the recalculated OPM, as seen in Figure 1. Indeed, in a 2013 Pew Trusts survey, when asked what a family of four needs to "get by" in their community, a plurality of respondents in the United States suggested the threshold should be at least $50,000,[88] far more consistent with these basic needs budgets.

[iii] A recent proposal, the "Recognizing Real Poverty Act" presented by Representative Ocasio-Cortez (D-NY) presents an updated, comprehensive, research-based poverty measurement framework that reflects the changing nature of basic needs and people's lived experiences. The ideas advanced by the proposal represent a constructive next step in modernizing measurement of income deprivation and needs.

Figure 1. The Official Poverty Threshold is Lower Than Many Alternative Standards

Income thresholds required to cover basic needs by measure and reference year for an average two-adult, two-child family living in the Cincinnati, OH-KY-IN Metro Area



Notes: All figures are converted to 2019 dollars using CPI-U. OPM-based measures are national; ALICE Project and Self-Sufficiency Standard thresholds are based on Hamilton County, which is contained within the Cincinnati OH-KY-IN metro area; all other figures are based on the Cincinnati OH-KY-IN metro area.

Each measure assumes one preschooler and one school-aged child per family, except for the ALICE Project, which assumes an infant and a preschooler, and the OPM-based measures, which do not specify child age; median family income reflects an average family with children.

All thresholds are based on after-tax income; median family income is before-tax. No thresholds include debt payments.

Source: Georgetown Center on Poverty and Inequality, 2020. Based on "Poverty Thresholds by Size of Family and Number of Children." U.S. Census Bureau, accessed 24 January 2020. Available at https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-poverty-thresholds.html; "ALICE State Level Details." United for Alice, accessed 24 January 2020. Available at https://www.unitedforalice.org/ohio; "Family Budget Calculator." Economic Policy Institute, accessed 24 January 2020. Available at https://www.epi.org/resources/budget; “The Self-Sufficiency Calculator.” Ohio Association of Community Action Agencies & the University of Washington Center for Women’s Welfare, accessed 24 January 2020; Available at http://oacaa.org/self-sufficiency-calculator/; “Median Family Income in the Past 12 Months by Presence of Own Children Under 18 Years.” U.S. Census Bureau, accessed 30 January 2020. Available at https://data.census.gov/cedsci/table?q=B19125&g=310M400US17140&hidePreview=true&table=B19125&tid=ACSDT5Y2018.B19125&lastDisplayedRow=3&vintage=2018&y=2018.

2.5. Family Experiences with Financial Hardship Indicate That Need is Greater Than What the Poverty Threshold Suggests

The OPM is ill-equipped to reflect the widespread financial hardship across the country stemming from the combination of inadequate incomes and unaffordable necessities. Need far exceeds what is indicated by the OPM. For example, in 2018, the OPM was 11.8 percent.[89] However, in 2017, 29 percent of households with children with incomes of up to 130 percent of the poverty line could not consistently afford adequate food.[90] The Federal Reserve Bank reported that in 2018 nearly 40 percent of adults would struggle to cover an unexpected $400 expense, and one-fourth of adults skipped necessary medical care because they were unable to afford the cost.[91] According to the Urban Institute, nearly 40 percent of adults had trouble meeting their basic needs of food, health care, housing, or utilities in 2017.[92] Polling indicated that nearly 40 percent of adults did not have confidence that they could pay a $1,000 emergency expense in 2019.[93]

3. The OMB Proposal Likely Would Make the Official Poverty Measure Less Meaningful & Useful

The Trump Administration's proposal indicates that they are seeking to use a different inflation rate to adjust the poverty threshold over time. Many measures of inflation could be used, but the administration has indicated that it likely would use the chained Consumer Price Index (C-CPI-U), which grows more slowly than the currently used CPI-U measurement. While many experts believe that C-CPI-U accurately measures average inflation across the *whole* economy for all consumers, it is not intended to be an accurate measurement of inflation for people with low incomes. More generally, adjusting a poverty threshold primarily through an inflation index over a long time period will mean that the threshold will fail to keep pace with rising living standards.

3.1. Lower-Income Children & Families May Purchase Goods & Services Facing Relatively High Inflation

Research on retail spending indicates that families with low incomes may face higher inflation rates than those indicated by C-CPI-U. This is because families with low incomes spend larger portions of their budgets on high-inflating goods and services and may face higher inflation rates than higher-income families for similar goods and services. And, as research demonstrates, these higher inflation rates are likely increasing income inequality.[94] That the C-CPI-U is not designed to capture differential inflation rates experienced by people with low incomes suggests that it may not be an appropriate inflation measure for gauging income deprivation.

BOX 1. Chained & Unchained Consumer Price Indices

Inflation measures, including CPI-U and C-CPI-U, try to estimate the cost of a basket of goods and services over time. The CPI-U and the C-CPI-U both use the Consumer Expenditures Survey (CES), from which the Bureau of Labor Statistics (BLS) determines appropriate the goods and services to include in the basket, and estimates ratios that reflect how much each of those products' year-over-year change in price contributes to the total basket's change in price over the same period.[95] For example, as cell phones have become more prevalent than landlines, CES has weighted cell phones more heavily.[96] Both measures also adjust for inflation for the economy and consumers as a whole, on average. (Since the measures gauge average inflation, most people will experience inflation at a higher or lower level.[97])

There are several key differences between the inflation measures. Notably, CPI-U and C-CPI-U update their baskets at different rates: while the basket of goods and services CPI-U uses to calculate inflation are updated every two years, the C-CPI-U is updated every month.[98] So, if consumers are switching month-to-month from driving to taking public transportation, the C-CPI-U will take it into account. Since it accounts for consumers making decisions to purchase different goods and services in the face of large price increases, the C-CPI-U tends to be lower than the CPI-U.[99] From 2000 to 2017, the C-CPI-U has increased by only 40 percent, while the CPI-U has increased by 46 percent.

Due to broader trends in income inequality, families with low incomes spend a larger portion of their budgets on goods and services whose prices rise quickly, such as rent, than in the past. From 2008 to 2018, the cost of rent rose 31 percent—almost twice as fast as the overall CPI-U inflation rate (17 percent).[100] A 2019 National Bureau of Economic Research study found that between 1990 and 2014, income inequality led to higher rents and costs of amenities in cities for low-income people, and further increased inequality between the top 10 percent and the bottom 10 percent of income earners by 1.7 percentage points.[101] The study found that “as the rich get richer, their increased demand for luxury amenities available downtown drives housing prices up in downtown areas,” which increases the costs of housing and amenities for low-income people.[102]

Having to spend a larger portion of one’s budget on goods and services experiencing relatively larger price increases exacerbates the hardships people with low incomes and their families already experience. It also means they may experience higher inflation than their wealthier counterparts for similar goods and services. Income inequality may also be at least partly responsible for inflation inequality. As the wealthy accumulate more and more wealth, companies increasingly cater to the taste of wealthier households, increasing competition for more expensive products to gain their business.[103] For example, the price for organic products increased more slowly than nonorganic products, with organic spinach costing 60 percent more than nonorganic spinach in 2004, but only 7 percent more in 2015[104]—despite organic food sales having soared at a much faster rate than total food sales (with an average of 11.2 per year, as compared 2.8 percent, respectively).[105] Purchasers of organic products, who typically have higher incomes, were facing a lower inflation rate than non-organic purchasers, who typically have lower incomes. Applying to a C-CPI-U measure to OPM implies that all income groups are experiencing price increases similarly.

3.2. The Chained Consumer Price Index Assumes Purchasing Flexibility That is Frequently Unavailable to Lower-Income Families

Proponents of using C-CPI-U emphasize its ability to offset price shifts by accounting for a consumer's flexibility shift between types of products. Yet, research suggests that low-income consumers do not have the same flexibility as their higher-income counterparts. Families with low incomes often have less ability to take advantage of bulk discounts and time-limited sales, as they are less likely to have sufficient liquid assets.[106, 107] For example, researchers at the University of Michigan found that low-income households save about 11 percent on toilet paper by purchasing cheaper brands. However, almost half of the savings are lost by paying 5.5 percent more per roll of toilet paper than if purchased in bulk.[108] So, even when families with low incomes are budgeting and finding the cheapest products, they still are not able to save as much as a family with a budget that allows buying in bulk.

At times, it is not feasible for people to substitute for less expensive goods or services. People with lower incomes often cannot because they are already consuming relatively inexpensive goods.[109] During a period of constrained budgets, such as a job loss, a family who was once buying organic produce could start buying non-organic or discount produce and save money. A family who was already buying the cheapest produce out there is unlikely to have the same options. Geographic limitations pose significant barriers to substitution, particularly for families living in areas with low or no access to grocery stores or child care. For the millions of people living in low-access food zones[110] and 51 percent of people living in low-access child care zones,[111] it is simply not viable to shop around for a cheaper option.

In some cases, particularly for people with disabilities, certain substitutions are impossible. As the Consortium for Citizens with Disabilities describes:

> "If insulin becomes more expensive, people with diabetes cannot substitute a different medication to sustain life. If bus fare increases, people with severe visual impairments or epilepsy cannot switch to driving a car. If the price of deli meat increases, people with peanut allergies cannot swap their turkey sandwiches for PB&Js. People with disabilities often require specially tailored clothing, assistive devices and technologies, specific diets, and other expenditures that cannot easily be changed because of changes in relative prices."[112]

The C-CPI-U's ability to account for consumer flexibility may make it a more accurate inflation measure for the economy as a whole, but not necessarily for families with low incomes. Low-income families often do not have the same flexibility as higher-income families, casting substantial doubt on the appropriateness of the index for use in the poverty measure. And measuring our nation's progress against a basket of goods and services that is frozen in time makes little sense over longer periods when prevailing living standards may rise substantially.

4. The OMB Proposal Would Harm Millions of Children & Families Struggling to Make Ends Meet

The Trump Administration's proposal would ultimately take away or reduce health care, food assistance, and other critical supports from millions of people. As mentioned previously, over 80 federal anti-poverty programs use the poverty line in order to determine eligibility.[113] Since fewer Americans would fall below the newly proposed poverty line, government programs that serve struggling people would serve far fewer people despite no material change in their circumstances,[114] something OMB itself acknowledges in its proposal.[115]

4.1. The OMB Proposal Would Lower the Poverty Line Compared to Current Policy

The change would slow the OPM's growth by about 0.2 percentage points each year.[116] A shift of this size may not seem significant right away, but over time likely would have a considerable impact. In 2017, the official poverty rate was 12.31 percent.[117] If the alternative C-CPI-U inflation adjuster had been changed one year prior, the poverty rate would have been 12.29 percent in 2017 and 44,000 fewer people would have fallen below the poverty line.[118] Over time, the impact would grow. Within five years, the number of people who could fall below the poverty line would decrease by nearly 425,000.[119] Within ten years, the number could decrease by nearly 1.6 million people.[120] If anything, this change would worsen—not improve—family's material conditions, by undermining their access to crucial foundational supports, even as the revised measure itself would hide some of the growth in income deprivation.

4.2. The OMB Proposal Would Reduce or Eliminate Needed & Effective Supports for a Growing Share of Struggling Families

The proposal would gradually shrink access to or the support received from highly effective programs that support large numbers of people overcoming barriers to financial stability—inevitably increasing poverty over time. Foundational support programs, like food and health care assistance, have proven themselves successful in supporting people with low incomes as they overcome challenges to financial security and stability. As my colleagues and I noted in a recent report, programs like Medicaid and SNAP are lifelines for people struggling to make ends meet.[121] In 2010, Medicaid kept at least 2.6 to 3.4 million people out of poverty (using an alternative measure of poverty),[122] and in 2017, SNAP kept 3.4 million people out of poverty.[123] Some of the longer-term of effects of Medicaid and CHIP include greater cumulative wages, earnings, and educational and health outcomes.[124]

Researchers have developed estimates of the impact on access to these programs if the OMB proposal were adopted. The Center on Budget and Policy Priorities estimates that ten years following the proposed change more than 300,000 children would lose health care coverage from Medicaid or CHIP and more than 250,000 adults would lose Medicaid.[125] More than 100,000 children would lose eligibility for free school meals and 40,000 infants and young children would lose benefits from the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) in the next ten years.[126] The

Urban Institute estimates that 579,000 SNAP participants, including nearly a quarter-million children (242,000), would have been ineligible for SNAP in 2016 had this proposal been in effect 15 years before.[127]

5. There Are More Sound Approaches for Improving Poverty Measurement in the United States

Our current method of measuring poverty is lacking, but the solution is not to lower the poverty line, consider fewer people as having unacceptably low incomes, and take food, health care, and basic assistance away from people. Instead, national poverty measurement should be thoughtfully reformed to ensure that it is more complete, meaningful, and accurate. Unfortunately, the Trump Administration's proposal arbitrarily singles out and dubiously adjusts one aspect of the poverty measure without considering the broader ramifications to the measure's usefulness, relevance, and accuracy.

Changes to the OPM and efforts to establish government-backed alternative poverty measures should be considered carefully, with significant research and consultation with experts, including researchers, advocates, and people who experience and have experienced poverty recently. The processes used to create the Supplemental Poverty Measure (SPM) can serve as a guide.

In 2011, the Census Bureau began publishing the SPM,[128] a modernized, post-tax poverty measurement tied to low-income people's experiences of hardship. Its publication was many years in the making. It began in 1995, and after nearly two and a half years of research and expert consultation, the National Academy of Sciences (NAS) published a report weighing possible changes to the poverty measure and general principles involved in creating a new measure.[129] For fifteen years following the publication of the report, various federal agencies and expert academics and stakeholders continued research and analysis weighing possible changes, leading to an interagency working group which established the SPM in 2010.[130] Today, the SPM improves upon the OPM by accounting more compellingly for family composition, additional necessary costs and non-cash benefits, including taxes and tax credits, and work-related expenses, such as child care, and medical expenses. It also includes a version with geographic adjustments.

While a thorough, deliberative process that includes significant stakeholder engagement is required, policymakers hoping to improve poverty measurement should look to the following criteria when considering changes to the poverty measurement:

- **Alignment with prevailing living standards**. Individuals and families have added new necessities to their budgets since the 1960s, including internet, phone usage, and increased child care costs. Similarly, out-of-pocket medical costs have become costly, necessary expenses. A sound method of measuring poverty should include a process to account for currently unknowable changes in our standards and ways of living going forward. Poverty measures based on household spending should regularly update the goods and services needed to maintain a decent standard of living.

- **Modern family definitions.** In 2019, 18.5 million adults lived with an unmarried partner, including 469,000 households with same-sex unmarried partners.[131] About one-third of children live with an unmarried parent.[132] The OPM is still based upon a two-parent, two-child household with one income-earner. Any updates to the OPM should reflect costs modern households face, such as potential increased child care cost for single parents or dual-worker households.
- **Adjustments based on location.** Rent and cost of living varies substantially from town to town and state to state. A national average of basic standards of living can fall short of capturing the differing challenges families with low incomes face in different communities across the country. Existing geographic adjustments are far from perfect, as substantial continued research is necessary to improve our methods.
- **Consistency with public understandings.** Income poverty is a concept that is easily grasped by all of us. It is part of many faith traditions and integrated in our public policies. Poverty measures should not be significantly out-of-sync with public understandings of poverty.

Conclusion

This is a crucial conversation for our country. We aspire to be a place where everyone is afforded the chance to achieve their full potential. But for millions of people, social and economic barriers continue to block access to opportunity and security, undermining our nation's present and future. Insufficient income to afford a basic living standard represents one such barrier. Ultimately, how we measure poverty is a moral question as much as it is a technical one. Any proposal to simply lower the poverty line based on questionable technical judgements misses the forest for the trees, and would needlessly harm children, families, and communities.

Fortunately, policymakers generally recognize greater need for programs that ensure the most basic foundations to families—programs such as Medicaid[133] and child care assistance,[134] which reach families above the poverty line in *many* states. Other programs, like SNAP,[135] the Children's Health Insurance Program (CHIP),[136] and the National School Lunch Program,[137] reach families above the poverty line in *all* states. Working family tax credits with bipartisan support, like the Earned Income Tax Credit[138] and Child Tax Credit,[139] provide resources to families significantly above the poverty line, too. Taken together, these examples suggest that policymakers are well aware of how low the official poverty thresholds are relative to financial and other needs.

There are better ways forward than arbitrarily singling one aspect of our Official Poverty Measure for a change that moves the overall measure in the wrong direction. Policymakers and the public alike would be well-served by honesty and thoroughness in how we conceptualize and measure poverty, and carefulness in how we use a poverty measure. The stakes for families struggling against structural barriers to their wellbeing and prosperity are as enormous as the stakes for our economy and society as a whole.

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