



COST OF LIVING AND THE SUPPLEMENTAL POVERTY MEASURE

*Summary Recommendations to the U.S. Census Bureau on Geographic
Price Adjustment to the Supplemental Poverty Measure*

James P. Ziliak, Ph.D.
Center for Poverty Research
University of Kentucky

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On April 28, 2011 the University of Kentucky Center for Poverty Research (UKCPR), in conjunction with the Brookings Institution and U.S. Census Bureau, sponsored a research forum entitled *Cost of Living and the Supplemental Poverty Measure* at the Brookings Institution. David Johnson of Census and Ron Haskins of Brookings served as co-organizers in preparing the forum. Among the more than 60 attendees were representatives from Agency for Healthcare Research and Quality, the Bureau of Economic Analysis, Bureau of Labor Statistics, Census Bureau, Congressional Research Service, Government Accountability Office, National Academy of Science, Office of the Assistant Secretary for Planning and Evaluation in DHHS, Office of Management and Budget, academia, and think tanks.

The goal of the forum was to gather leading economists in a roundtable format (1) to critically evaluate the proposed Census method for geographic adjustment, (2) to offer empirically implementable alternatives to the Census approach (including whether to adjust at all), and (3) to suggest future directions for research on geographic adjustment of poverty thresholds. In order to provide guidance to Census on the SPM, as well as the Secretary of Health and Human Services as research proceeds on the feasibility of geographic adjustment of poverty guidelines, the ultimate aim was to achieve some form of consensus among the experts on whether geographic adjustment was preferable to none at all, and if so, what form that adjustment would take.

The experts commissioned for the forum were (in alphabetical order):

David Albouy

Assistant Professor of Economics, University of Michigan

Dan Black

Professor and Deputy Dean of Public Policy, University of Chicago

Angus Deaton (Keynote Speaker)

Dwight D. Eisenhower Professor of Economics and Public Affairs, Princeton University

Edward Glaeser

Fred and Eleanor Glimp Professor of Economics, Harvard University

Barry Hirsch

W.J. Urey Chair of the American Workplace, Georgia State University

Edgar Olsen

Professor of Economics, University of Virginia

Stuart Rosenthal

Maxwell Advisory Board Professor of Economics, Syracuse University

In addition to the roundtable discussion and keynote address, presentations were made by Trudi Renwick, Chief of the Poverty Statistics Branch in the Housing and Household Economic Statistics division of the U.S. Census Bureau ; Bettina Aten, Research Economist in the Office of the Director at the Bureau of Economic Analysis in the U.S. Department of Commerce ; and Paul Sullivan, Research Economist in the Division of Price and Index Number Research of the Bureau of Labor Statistics.

Formal written comments of the experts are available at <http://www.ukcpr.org/Conferences.aspx> and also in the Appendix to the summary report submitted to ASPE that can be found at http://www.ukcpr.org/UKCPR_COL&SPM_Forum_withAppendices.pdf.

Although the reports represent a diverse set of opinions on the efficacy and challenges of adjusting the poverty thresholds for differences in regional cost of living, during the roundtable discussion the experts reached *unanimous* consensus on the following:

Recommendation 1: *Some form of adjustment to the SPM thresholds for geographic differences in cost of living is preferable to no adjustment.*

While recognizing that data limitations prevent the construction of an index that approaches a true measure of cost of living, the panelists agreed that constructing a geographic price index was preferable to no adjustment. In a parallel to the adjustment made across countries for differences in prices, this index might be labeled a Poverty Purchasing Power Parity Index (PPPP) to reflect the fact that the threshold makes an adjustment to incomes of the poor across regions of the United States.

Recommendation 2: *The current method of adjusting the SPM threshold for housing price differences across regions but not other components of the consumption bundle is reasonable until better data become available.*

Although housing expenses only account for about 40 percent of the typical household consumption bundle, large-scale and high quality data on the other 60 percent of the consumption bundle at the subnational level do not presently exist. Collecting such data should be a high priority.

Recommendation 3: *The adjustment for geographic housing price differences should be based on quality-adjusted rental costs.*

The current experimental approach adopted by Census for the SPM makes a distinction between renters, owners with a mortgage, and owners without a mortgage. The panel believed that only rental cost data should be used because home ownership is an asset (a stock) and the focus of the SPM is on income (a flow). Moreover the panel recommended using quality-adjusted rents from a hedonic regression using data from the American Community Survey (ACS) as the basis for rental housing adjustment. An example of how such an approach could be implemented is provided in the report by Stuart Rosenthal.

Recommendation 4: *New sponsored research to inform how and for whom to adjust thresholds for geographic differences in cost of living should be a high priority.*

The panelists agreed, and indeed were exasperated, at the lack of evidence on certain fundamental issues necessary to justify and implement geographic adjustment. Chief among these is the paucity of evidence on the mobility of the poor, including the frequency of such moves and over what distances. Based on standard models in

economics the case for geographic adjustment is strongest when there exist substantial barriers to geographic mobility that prevent the poor from moving to locations that improve well being. How this mobility varies across the working poor versus non-working poor (and within the latter, disabled versus retired) is also crucial to better understand *for whom* to adjust for differences. Another high priority area is research on constructing a geographic price index for a constant-quality basket of goods and services that accounts for the entire consumption bundle. As many of the reports indicate, it is unlikely that full adjustment of the threshold to such an index is optimal, but instead partial adjustment is more likely (e.g. as indicated in the report by Hirsch). But to implement partial adjustment, better measures of constant-quality geographic price indices is a needed first step.