

MEMORANDUM

TO: Nancy Potok, Chief Statistician, Office of Management and Budget

FROM: Members of the American Economic Association's Committee on Economic Statistics

DATE: June 21, 2019

SUBJECT: Comment in response to 84 FR 19961 on Statistical Directive #14

A consumer price index (CPI) measures price change for consumers in an economy. Although price measurement is an active research area in economics, economic principles and international guidelines are generally settled on best practices for monthly CPIs. In the context of overall approach, there have been important debates about whether a CPI should aim to be a cost-of-living index, or whether it is best viewed as something less ambitious (e.g., a cost-of-goods index as discussed in a report by a multidisciplinary panel of experts convened by the National Research Council in 2002¹). Economists are generally aligned that a CPI should aim to be cost-of-living to the extent possible, and we therefore approach the question at hand—what price index should be used for deflating an income-based level of poverty—from this perspective. The choice set offered by the OMB includes six existing measures currently published by the Federal Government.

The formulation and historical consistency of the BEA's personal consumption expenditures price index (PCEPI) suggests it comes closest to a cost-of-living index (conditional on the goods and services included in it). The majority of the individual components of this index are individual CPI components obtained from the BLS. Of the other five indexes that OMB offers as choices for a poverty deflator, the BLS's chained consumer price index for all urban consumers (C-CPI-U) is similar to the PCEPI in formulation, and its Consumer Price Index Research Series Using Current Methods (CPI-U-RS) is similar in historical consistency. The BLS does not publish a chained CPI aggregated using underlying series based on current methods, but note that the chained CPI begins in 2002, whereas the PCEPI begins in 1959 and can be used for longer run analysis.

The scope of the goods and services that are included in price indexes is an underappreciated explanation for differences in measures of inflation, e.g., a price index that includes all economic sectors (the GDP deflator) will have a different measure of inflation than a price index for consumption. Less obviously, differences in scope between two consumption price measures also gives rise to systematic differences over time. The CPI's concept of consumption is consumption funded directly by households, i.e., "out-of-pocket" expenditures whereas personal consumption in the national accounts measures goods and services purchased by persons within the framework of the national accounts. Practically, this means that the PCEPI is somewhat broader (e.g., the PCEPI includes medical care services paid for by health insurance and through government programs such as Medicare and Medicaid, not just services

¹ National Research Council. 2002. *At What Price?: Conceptualizing and Measuring Cost-of-Living and Price Indexes*. Washington, DC: The National Academies Press. <https://doi.org/10.17226/10131>.

consumers pay for directly). The appropriate scope depends on the measure to which the index is applied.

Our recommendation is that the conceptual and measurement issues discussed above based on scientific principles and best (international) practices be used in choosing a price index, including a price index for deflating an income-based measure of poverty.

Thank you for taking our perspective into account.

Sincerely,

John C. Haltiwanger

John C. Haltiwanger, Chair
AEA Committee on Economic Statistics

Members of the AEA Committee on Economic Statistics who endorse this Comment include:

John Cawley, Professor in the Department of Policy Analysis and Management, and the Department of Economics, at Cornell University, and co-Director of Cornell's Institute on Health Economics, Health Behaviors and Disparities.

Carol Corrado, Senior Advisor and Research Director, Economics Program, The Conference Board, Senior Scholar at Georgetown University McDonough School's Center for Business and Public Policy, and a member of the Technical Advisory Committee of the Bureau of Labor Statistics,

Martin Gaynor, EJ Barone University Professor of Economics and Public Policy, Carnegie Mellon University, and former Director of the Bureau of Economics at the U.S. Federal Trade Commission.

John Haltiwanger, Dudley and Louisa Professorship in Economics and Distinguished University Professor, University of Maryland Department of Economics, member of the U.S. Federal Economics Statistics Advisory Committee, member of the Bureau of Labor Statistics Technical Advisory Committee, and former Chief Economist, Bureau of the Census.

Edward B. Montgomery, President, Western Michigan University, and former Deputy Secretary of the Department of Labor

Emi Nakamura, Chancellor's Professor of Economics, University of California, Berkeley, awarded the John Bates Clark Medal and elected to the American Academy of Arts and Sciences in 2019.