



## **BlackEconomics.org**

### **“A Black CPI?”**

The US government produces numerous official statistics by race or ethnicity: e.g., population, employment and unemployment, household income, net worth (wealth), poverty, incarceration, average years of schooling, etc.

A very important statistic that is not produced by race or ethnicity is the Consumer Price Index (CPI). The CPI reflects changes in the price level (inflation) that occur in the US urban economy. Generally, the CPI is based on: (1) a market basket of goods and services that is purchased by urban households; (2) the geographic areas where the urban population resides; and (3) underlying prices that are collected for the distribution of items that are purchased by urban households from outlets that consumers frequent in the aforementioned geographic areas.

The CPI plays an extremely important role in the economy because not only does it signal the rate of inflation and guides monetary policymaking, but it is also the basis for many cost-of-living adjustments (COLAs) and contract escalations. For example, over a trillion dollars in benefits that are paid each year by the Social Security Administration (SSA) are adjusted in accordance with changes in the CPI. Also, escalations in payments made under many labor-related and other contracts are linked directly to the CPI. The purpose of these COLAs and escalations is to compensate affected parties for inflation so that they do not lose purchasing power.

Should there be a Black CPI? Before answering that question, consider the following:

- When economies experience inflation, economic agents are made whole when their incomes or benefits are adjusted at a rate that is consistent with the inflation that they experience.
- If economic agents receive adjustments that are greater or less than the rate of inflation that they experience, then they are over- or under-compensated.
- Persistent over- or under-compensation compounds over time and can lead to a sizeable gain or loss in purchasing power.

Is there reason to believe that Black Americans experience a rate of inflation that is generally different from the rate of inflation reflected by the CPI? The only way to answer this question definitively would be to compile a Black CPI.

In the 1990s, concern arose that the elderly population experienced a rate of inflation that was different from (higher than) the rate reflected by the CPI. The concern received sufficient attention so that the US Department of Labor, Bureau of Labor Statistics (BLS) (the agency that produces the CPI) was awarded funds by the US Congress to prepare and maintain an experimental CPI for the elderly. This experimental CPI is unofficial and has several weaknesses, but it indicates that the elderly may be experiencing a slightly higher rate of inflation than that reflected by the CPI. It goes without saying that if an official elderly CPI were produced and it reflected the same outcome as the experimental elderly CPI, then potentially the SSA COLA could be based on an elderly CPI, which would award the elderly higher levels of benefits than they have been receiving. BLS indicates that the experimental elderly CPI is likely reflecting a higher rate of inflation than the CPI because prices for housing and medical care—items for which the elderly spend proportionally more on than do urban households—rose faster than the CPI over the period studied.<sup>1</sup>

To begin building an argument for a Black CPI, consider that BLS published research in 2015 that stated “the cost of ‘basic necessities’ has risen slightly more than inflation [as represented by the CPI] over the past 30 years.”<sup>2</sup> Couple this research with the fact that Black American households spend a larger share of their income on “basic necessities” than does the urban population and one could argue that a Black CPI might reflect a higher level of inflation than the CPI.

We compared urban versus Black households’ expenditure shares for the “basic necessities” identified in the BLS 2015 research using data from the 2010 and 2019 Consumer Expenditure Survey (see Table 1).

Table 1.—Expenditure Shares for “Basic Necessities” for Urban Households versus Black Households, 2010 and 2019.

<b>"Basic Necessities" Expenditure categories</b>	<b>(A) Urban households expenditure shares</b>	<b>(B) Black households expenditure shares</b>	<b>(C) Differences (B-A)</b>
<b>2010</b>			
Food at home, Shelter, and Apparel	31.5	35.2	3.7
Energy	8.6	10.7	2.1
Healthcare	6.6	4.8	-1.8
Overall "basic necessities"	46.6	50.8	4.2
<b>2019</b>			
Food at home, Shelter, and Apparel	29.7	33.7	4.0
Energy	6.5	7.8	1.3
Healthcare	8.2	7.1	-1.1
Overall "basic necessities"	44.4	48.6	4.2

Source: Table 2100 from BLS Consumer Expenditure Surveys for 2010 and 2019 with the author’s computations.

<sup>1</sup> Kenneth J. Stewart (2008). “The Experimental Consumer Price Index for Elderly Americans (CPI-E): 1982-2007. *Monthly Labor Review*. April, pp. 19-24.

<sup>2</sup> Jonathan Church (2015). “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. pp. 1-8.

Table 1 shows that for 2010 and 2019, Black households spent a larger share of their income than urban households on Food at home, Shelter, and Apparel, on Energy, and for overall “basic necessities.”<sup>3</sup> The differences are substantial. However, Black households did not spend a larger share of their income than urban households on healthcare.<sup>4</sup>

Therefore, a Black CPI that would be based on a Black households’ market basket, geographic areas that are inhabited by the Black urban population, and prices collected on the distribution of items that Blacks purchase from outlets that Blacks frequent in the aforementioned geographic areas could reflect a higher rate of inflation than the CPI. At a minimum, it seems reasonable that Black Americans should push for an experimental Black CPI as a starting point.

If an experimental or an official Black CPI is produced that reflects a higher rate of inflation than the CPI, then this will pinpoint another case where the US Government has made selective and untimely decisions concerning its operations to the disadvantage of Black Americans.<sup>5</sup> Related and important follow-on questions would include: (1) Will the US Government use the Black CPI for COLAs and other escalations that are linked to Black Americans? and (2) Will the US Government compensate Black Americans for the benefits/resources that were lost because CPI COLAs and escalations failed to compensate Black Americans appropriately for the inflation that they actually experienced?

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<sup>3</sup> We provide data for two years (2010 and 2019) to confirm that the outcomes are quite persistent.

<sup>4</sup> This outcome likely results from the fact that a sizeable portion of Black households receive Medicare and Medicaid health-related benefits, which reduces their out-of-pocket spending on healthcare.

<sup>5</sup> As an example, we should not forget that separate statistics on Black employment and unemployment were not compiled and disseminated until 1971.