ACPSRO Letter re CPI indexation

Dear ….. [your local politicians]

**CPI: A Con as a Cost of Living Index**

Economists might deserve the praise they claim for their art if they ever get round to inventing something that actually does index changes in consumer prices over time. The thing they call the “*Consumer Price Index”* does not do that – it measures an artificial economic construct that they choose to call *“inflation”.* But it does not measure the changes in the prices of the things you and I have to pay to keep alive –changes in the *cost of living.*

How have they got away with this con for so long? Once upon a time, 20 or so years ago, the CPI really was something like a cost of living index. But then they decided that the prices of the things they used to calculate that index needed to be changed to take account of changes in their quality. They realised this might be a bit difficult to do, so they invented a whole lot of intricate and mysterious formulas and processes that they claim do this. Because they are so intricate and mysterious, they computerised them. Now, as prices are collected they are automatically adjusted by the clever electronic devices they use and only the adjusted price is retained. So no record is kept of what the real price of each item was and no one knows by how much the adjustments made have changed the resultant CPI figure. Good way of keeping it all secret, hey?

But “So what?” you may well ask. Although no one knows what the real figure is, the best estimates suggest it would understate published CPI by about 1.0 to 1.5 percent each year. Again “So what?” you say, “That’s not much - we can easily live with that.” But it’s more than it looks. At present, CPI is running at between 2 and 3 percent each year. If the adjustment was added back in, we would be looking at annual CPI of between 3 and 4.5 percent. And just think how much that would have reduced the value of your CPI adjusted payment over 20 years. That’s why the pollies are more than happy to allow the con to continue – it saves them buckets of the loot they take from us in tax to spend on other things.

And that is why anyone who relies on a CPI indexed income is feeling the pinch of present day prices. If they are ever to receive payments that enable them to maintain their living standards, a new index must be brought in that measures the changes in the real cost of living. Let the economists and the pollies play with their CPI but get real for the rest of us.

Yours, etc.