Consumer Prices Fall … or Rise?

"Core consumer prices" fell by a monthly 0.1 percent in January, reported the Wall Street Journal on February 19, noting that the last time core consumer prices fell was in December 1982. However, noted the Journal, citing the U.S. Department of Labor's statement, the seasonally adjusted consumer price index rose 0.2 percent during the same month, the increase caused mainly by higher energy prices.

"Core consumer prices" exclude energy and food.

The *Journal* article continued:

> On an annual basis that are not adjusted for seasonal factors, consumer prices rose by 2.6% in January. Core consumer prices rose by 1.6% from 12 months ago.
>
> The Labor Department's report showed that energy prices led the increases, rising by a monthly 2.8%, the largest gain since August 2009. The gasoline index rose by 4.4% in January. In December, energy prices rose by 0.8% month-on-month.
>
> Food prices were up 0.2% last month, with the index for dairy and related products rising 2.1%, following a 0.1% increase in December.

An extension of the above-noted January increases throughout 2010 would result in annual increases of 33.6 percent for energy prices, with a 52.8 increase for gasoline; and a 2.4 percent increase in food prices, with dairy and related products increasing by 25.2 percent.

The theme of increasing consumer prices but decreasing "core" prices that excluded items most likely to impact a family's weekly budget was repeated in other reports, as AFP noted:

> On an unadjusted annual basis, consumer prices were up 2.6 percent from January 2009, a low base for comparison because consumer prices had fallen for five consecutive months in late 2008 as the global financial and economic crisis accelerated.
>
> Core CPI, *excluding food and energy prices*, unexpectedly fell 0.1 percent last month from December, the first decline since December 1982. [Emphasis added.]

But there was no denying the bottom line. As the *Financial Times* reported: "Compared with a year ago, consumer prices are up 2.6 per cent."

Economic reports related to the cost of living tend to contribute to the public's misunderstanding of "inflation" — a term commonly used as a synonym for higher prices. However, the classic economics definition of inflation is an increase of the amount of money in circulation. When tied to a fixed asset such as gold or silver, it is difficult to increase this amount and prices tend to be stable. But with the establishment of the Federal Reserve, and the printing of unlimited amounts of fiat paper currency not backed by anything of intrinsic value, the inflation of our money supply has run rampant, with the subsequent effect of much higher prices.

At present, the relatively small increase in prices has masked the inevitable escalation that must follow our government's ongoing spending spree and increase in the money supply. This is partially the result of decreased upward pressure on prices caused by a recession-related decrease in consumer spending. But another factor hiding inflation is our government's recent history of borrowing money from foreign sources (principally China) by issuing bonds rather than monetizing our debt.

As for why the Department of Labor expresses price increases (or decreases) using methods that arbitrarily exclude certain categories that form a major part of most household budgets (such as food and gasoline), the most obvious explanation is that is political trickery designed to hide the poor state of the economy from the public. "Prices have gone down," the government bureaucrats claim, "except for food and gasoline and heating oil."

The primary factors contributing to the decrease in the "core" consumer price index were the costs of housing and automobiles. However, how often does the average consumer buy a house or automobile? And when the budget is tight, those are purchase that can be postponed until things improve.

But even a modest increase in food and energy prices has an immediate impact on the family budget, especially on those with fixed incomes. The case of retired older American living mainly on Social Security comes to mind.

During most years, Social Security recipients receive an annual Cost of Living Adjustment (COLA), based on the cost of living, using one of the government's various indices. However, seniors failed to receive a Cost of Living Adjustment in 2010 for the first time since the Automatic COLA was introduced in 1975, because the official measure of the cost of living claims that prices have gone down, not up. COLA is determined by the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), which is tabulated by the career bureaucrats at the U.S. Bureau of Labor Statistics.

A report published by prnewswire.com about the Social Security COLA notes:

> Without the yo-yo effect of energy prices, the COLA for last January [2009] would have been barely half as large. The CPI-W for all items *except* energy rose only 3.1 percent during the period, based on monthly figures available on the BLS Web site. But there also would have been a COLA increase this coming January, too, and probably the year after as well. That's because the CPI-W for all items except energy rose 1.5 percent in the last 12 months. Compare that to the 1.9 percent decline for all items including energy.
>
> Whatever the cause, Social Security recipients are going to feel squeezed this January, simply because they have become accustomed to annual increases. And about one in every four really will be squeezed, because their Medicare premiums will increase.

Picture yourself as a retiree living mainly on Social Security. The price of your food, gasoline for your car, and heating bill have all gone up. But the government says that increase in food and energy don't count in determining the cost of living, so you will get no COLA this year. Yet, with increased Medicare premiums, your net Social Security payment will actually go down. And a major factor in determining the drop in the "core" consumer price index — the cost of housing — has just decimated the value of your net worth by reducing the value of your home.

Our government's game playing in saying that our rising cost of living is nonexistent (or has actually gone down) is harmful to all Americans, but particularly to our retired senior citizens.

And while it is true that Social Security and Medicare are not authorized by our Constitution, our citizenry has involuntarily been made a participant in such schemes. To say that senior citizens should take what they get from Social Security without complaint because Social Security is not mandated by the Constitution ignores the fact that by forcing taxpayers to pay Social Security and Medicare taxes, our government has incurred an obligation to return fair value for what was confiscated.

It would be better for all Americans, however, if our government would live within its means, spend money only for what the Constitution authorizes, and not lie about the effects its profligate spending practices have had on our cost of living.

Photo: AP Images