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ALTERNATIVE MEASURES OF COSTS OF LIVING

In some recent Newsletters we have considered uses and abuses of the Consumer Price Index (cost-of-living index). It can tell you something about how you stand in relation to other people in other places, but it has some drawbacks, too. In this newsletter we will consider at least one alternative. To some, this is known as "family budgeting".

To illustrate how you might use the price index, it is only necessary to use an example: Suppose that a family had a $10,000 adjusted gross income in, say, 1970. The average index for that year was 116.3. In 1975, however, it averaged 161.2. This is an increase in the "cost-of-living" of 38.6 percent over those five years--a pretty healthy rise. It means that the family income would have had to increase to at least $13,860 to keep up. Perhaps they did. However, because of an increase in income tax rates and brackets (considering only the Federal tax), it would actually have had to increase more to buy as many goods and services.

Another side effect, little noticed by many people, is that the social security rates and limits also increased, further reducing the "take-home" pay and at the same time increasing the retailers' costs by 11.7%.During the same period, those paying sales taxes would have to pay more because of the inflated price of goods and services,even though the tax rates were not increased.

Thus is it little wonder that even those who have been able to maintain increases in money incomes still find themselves in a bind?

Most families have many built-in expenses which they can do little about, particularly within a short period of time. These include such items as fixed payments on the house (or rent)and car, property taxes, insurance, utilities, and, of course, food. Entertainment, savings and other "residual" amounts can be adjusted within reason, but many can't.

Life insurance in at least a minimum amount is almost essential for the "breadwinner" as is some health, accident and hospitalization insurance. With rates on the latter rising rapidly as the costs associated with their use (such as hospital and medical care costs), can become almost unbearable, yet must be maintained at some minimum to avoid financial ruin for the family.

Foods require a base minimum of some type if health is to be maintained. Again, however, these expenses tend to rise, too, although not all at the same time or rate. But during periods of intense inflation such as we have been going through, substituting hamburger for steak doesn't help much because the prices of alternative foodstuffs follow the rise and while relatively cheaper-priced may take as much or more of the family's fixed income than before.

Most families may be able to cut back some on immediate purchases of clothing, put off the planned-for vacation, and forget their savings account for a time. But these are only stop-gap measures.

Some workers are fortunate enough to have incomes tied somewhat to the socalled cost-of-living index which can help isolate them from some of the effects, but as we have seen earlier they usually end up being "hurt", too. Retired persons living on fixed incomes are in a position similar to the person working on a fixed salary with no way of improving it except, possibly, by involving more members of the family in jobs, raising some of their own food if that is possible, or as a final alternative doing some "moonlighting".

Even farmers and businessmen find themselves in similar troubles. Their incomes may at one moment in time demand that they postpone planned expenditures, partly due to their fixed family expenditures and partly due to the necessity of operating their businesses which require increased capital requirements.

From the foregoing comments it becomes obvious that no statistically derived index on a national scale is going to help you solve your individual problems. This can be done only by carefully planning your expected incomes and expenditures and keeping a periodic check on how well you are meeting them during the course of a month, a year or some other span of time.

This requires not a lot of guesswork and estimates, but a detailed set of records sorting out the various types of expenditures and classifying them as to those that are absolutely fixed and those that may have some flexibility; and then, of course, your periodic check as to whether or not you are staying within those guidelines.

A budget (anticipated incomes and expenditures) prepared from such records will be of even greater use if at least one member of the family keeps a close and continuous watch on them.

In short: plan your budget with an almost certain 6 to 8 percent annual rise in costs. But remember that it may take 8 to 10 percent more income to cover them.

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