Reducing Inflation

Does anyone out there know how to bring inflation down?

The English language is hard for foreigners to comprehend, whereas those of us brought up with it should have no problem; until we come across words and concepts so obscure and irrelevant to the average person that they are meaningless. One such mystery that is being discussed constantly these days is inflation. Governments blame it for recessions, depressions and their own failed policies. For them it is a scourge to be feared and is way beyond their control. According to those who purport to understand balance sheets and fiscal policies, managing inflation is simply a matter of juggling figures. From our naive point of view it is a nagging pain that gets increasingly worse and no-one seems able to fix.

But what is it exactly? Apparently inflation is calculated as a percentage that reflects the cost of living; at least it should. One way statisticians have of arriving at their figures is by purchasing a shopping trolley of goods that they claim are likely to be included in the average weekly household budget. The same products are later bought at regular intervals and the prices paid are compared with the cost of earlier shops. The increase or decrease is then added to or subtracted from the previous percentage. Logically, if the latest figure is 3.4% against a lower one quoted before that was 3.1%, inflation is on the way up. Fair enough, we understand the sums; but how does this relate to the lives of ordinary people; and should the weekly shop be the only factor to consider?

Everyone knows that the cost of living is more than just the price of cereal and canned soup. Men and women, as they say, cannot live by bread alone. They have a car which is a real money-eater, what with fuel, servicing, repairs and insurance. And speaking of the latter, there are house and contents to cover, not to mention health; assuming, of course, that the average family can afford these luxuries in the first place. The ones who can know premiums are frequently being hiked up; so, surely this is all part and parcel of rising inflation, isn't it?

Most of us have roofs over our heads. Even though some residences are privately owned and fully paid for, there are still expenses like maintenance, utilities and council taxes. Whoever rents a property shouldn't need to worry about paying to have the gutter replaced when it falls off, but there are the costs of electricity, gas and water on top of the weekly rent. Enter landlords and letting agents, monsters of a different kind who keep their evil eyes on inflation; and when it goes up, the rents they charge follow suit. Why do they need to do that? Well, as actual owners of the homes being rented out, some of which still have mortgages; if they don't charge more, plus a bit extra for good measure, they'll be out of pocket. As for private individuals residing in their own properties; if they have a mortgage they also face a double whammy when interest rates are influenced by inflation.

Here's the very issue that prompted me to write this article in the first place. When it comes to inflation, why isn't it a word directly related to everything that affects the cost of living? I am at a loss to understand how increasing interest rates is going to bring inflation down. Let me explain that. All countries have a national or central bank that sets basis interest rates. I refer to The Big Brother of Bankers which comes up with a guideline that all other bankers and financial loan institutions are bound by. In Australia we have the Reserve Bank, and when it declares the current rate is being increased by a quarter percent more than it was yesterday, the banks and cash lenders pass on the increase to their borrowers. Hence, up goes the monthly mortgage repayment; so too, presumably inflation... Not according to governments and statisticians, apparently.

They seem to have this weird idea that higher monthly mortgage payments, other loan repayments, and weekly rent hikes have nothing to do with increasing the cost of living. After all, they might say, what is in your week's shopping trolley is eight percent cheaper than it was last week. Maybe theirs is, but yours is only a bit cheaper because this week's budget had to be reduced overall because you couldn't afford to buy as much. Maybe you even had to go without your medication and were forced to cancel your kid's dental appointment. Can't the Reserve Bank and governments see the damage they are doing with their Mickey Mouse money-juggling? Really and truly, what planet are these so-called financial experts living on?

Let's have one last try to understand what they're talking about...

The Reserve Bank ups interest rates by another quarter percent. Consequently, according to it, the result was inflation holding steady at 3.4%; no impact whatever on the cost of living for ordinary people. Really...? So, how come prices are still going up?

Thanks to previous interest-rate rises, the hoi polloi copped increases on mortgage payments, rent, fuel costs, health and other insurance; along with those items that they would normally buy that went up because manufacturers, suppliers and freight companies were also impacted by rising costs. These were ordinary things that didn't happen to feature in the statisticians' shopping trolley. Pretty convenient, eh? For me, the equation is heavily loaded on the wrong side and doesn't work.

I don't like to criticise unless I can offer some kind of alternative solution; so before I close, here's one. Collect up all of the bankers, politicians, financial wizards and their interest-rate hikes; then take them out to a desert somewhere and blow the lot up – bang to inflation, and a cheaper life for the rest of us!