

THE LOW PAID PRICE INDEX (LPPI)

RSG members have in the past pursued an interest in the issue of differential inflation, and in RADSTATS 12 J.J.Plant again drew attention to the need for a workers' cost of living index. He will be pleased to know that such an index now exists. The Low Paid Price Index (LPPI) was launched on June 1st as a joint venture between the Civil and Public Services Association and the Low Pay Unit, and will now be published monthly alongside the official Retail Price Index.

The Low Pay Unit, an independent research unit funded mainly by the Rowntree and Nuffield Trusts, have for almost four years tried to persuade the Department of Employment to publish an alternative index for the low paid alongside those already produced for pensioner households. The response has been disappointing. But the evidence of a differential bias in inflation against lower income groups is now well documented by the Unit and other researchers. The involvement of a trade union reflects dissatisfaction with the official RPI as an instrument of pay bargaining (as well as of social policy). Work by Muellbauer and others has shown that the official index represents a household between two-thirds and three quarters of the way up the income distribution, which is unhelpful if, like CPSA, many of your members are amongst the low paid. The union also has an interest since its members are responsible for collecting the price information on which the official index is based.

In the face of official resistance to the idea of an official index for the low paid, CPSA and Low Pay Unit have embarked on the task of producing such an index until such time as the Department of Employment itself takes on this role. The index is constructed in the same way as the RPI itself but uses expenditure weights appropriate to households at the lowest decile of the 'employee' income distribution (which also represents the lower quartile of the 'all households' distribution). The first results are set out in the table below.

Lowest decile					Re-weighted RPI *	Highest decile				
	Index Jan. 15 1974=100	Percentage change over				Index Jan. 15 1974=100	Percentage change over			
		1 month	6 months	12 months			1 month	6 months	12 months	
Jan 1975	119.4				120.2	120.6				
Jan 1976	150.9				149.8	149.5				
Jan 1977	176.8				174.6	174.4				
October	192.4				189.1	189.1				
November	193.2	-	-	-	189.8	189.7	-	-	-	
December	194.2	0.5	-	-	190.9	190.8	0.6	-	-	
1978										
January	195.3	0.6	-	-	191.9	191.9	0.6	-	-	
February	196.6	0.7	-	-	193.1	193.1	0.6	-	-	
March	197.8	0.6	-	-	194.1	194.1	0.7	-	-	
April	201.9	2.1	4.5	8.7	197.3	197.3	1.5	4.0	8.2	

Note*: The weights for the RPI are changed annually, while the LPPI uses constant weights based on 1977 expenditure data. For comparison the RPI has itself been adjusted on the same basis

The cumulative effect of differential inflation over the period appears to have been significant. Between January 1975 and April 1978, the LPPI rose by 69 per cent while the RPI (reweighted) increased 64 per cent. And while the annual 'inflation rate' registered by the RPI is now below 8 per cent, that registered by the LPPI remains closer to 9 per cent. The fact that an index constructed for the highest decile moves almost in step with the RPI confirms that the official index is more representative of households at that end of the income scale.

Already the LPPI is being used in trade union wage-claims, and CPSA and the Low Pay Unit hope that its use for this purpose will become widespread. Only then is the government likely to rethink its opposition to an official index which accurately measures the effects of inflation on the living standards of working people. A technical note describing the construction of the index is available from the Unit, and we would be happy to discuss the issue further with those who are interested.

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