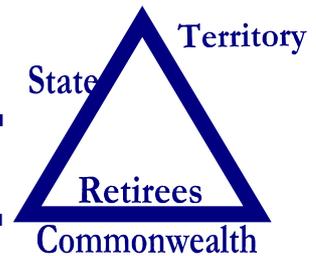

Australian Council of Public Sector Retiree Organisations Inc.

ABN 74 202 015 642



Peak Council representing Commonwealth, including military, State, Territory and other public sector retirees.

12 Muresk Street, Farrer ACT 2607

12 September 2017

Senator the Hon M Cormann
Minister for Finance
Parliament House
Canberra ACT 2600

Dear Minister,

Some of my colleagues and I met recently with Duncan Loydell, one of your advisers. The subject of our meeting was the fact that the Consumer Price Index (CPI) has, over time, become purely a measure of inflation, *as defined by economists*, and has lost its direct relevance to the actual costs of living experienced by the general public, which the public views as “inflation” when assessing its “standard of living”. We discussed the fact that the Australian Government now has no statistical measure which, if viewed in conjunction with wages growth, will provide even an approximation to national standards of living. As that is clearly a sensitive political issue in the current climate, Duncan suggested that we write to you.

The following background may assist. To some extent prices that go into the CPI have always been subject to adjustment for a change in quality. The standard example is that the price of a tin of soup needs to be adjusted if the quantity of its contents changes. For a long time the CPI's "basket" reflected adequately the changes in the cost to consumers of consistently quantifiable items like food, clothing, housing, etc. and so could be used to measure inflation and simultaneously to set wages to maintain standards of living. This changed in the period of the late 1960s to the early 1980s when an increasing proportion of household expenditure went to technology items -TVs, computers, phones, household appliances, etc - all of which were subject to constant and rapid improvements in quality. At the same time we believe that statistical authorities around the world, led by the USA, adopted a much more energetic approach to tracking these quality changes and making adjustments for them. This produced a "better" (read lower) measure of inflation. But, and this is the crucial point, consumers have little choice but to accept the current edition of a product. The price paid for that product may have increased even though the price, adjusted for quality change, used in the CPI has not. People can't buy equivalents of the superseded models.

The result is that the public is losing confidence in the CPI to reflect the real price pressures it experiences. The strong opposition from many quarters to the 2014 Budget measure to index the Age pension to just CPI was an example of that. That loss of confidence with regard to

prices seems to have progressed from mere scepticism to downright hostility towards government in general and, when combined with growth in wages that is currently, at most, comparable with the CPI, may contribute substantially to the rise of political populism.

Because their defined benefit pensions are indexed by CPI, many public sector retirees have been experiencing those compression effects for longer than most of the wage-earning public. While we note the reluctance of governments to ameliorate those effects for our members, despite the fact that our retirees' average retirement pensions are little higher than the Age pension, we fear the wider effects of growing irrational political populism at a national level.

ACPSRO therefore recommends that you direct the Australian Bureau of Statistics to develop a measure which can track effectively national standards of living, ie incorporating both unadjusted retail prices and wages growth, to try to recover the public's confidence.

Yours sincerely,

Richard Griffiths
National President
Australian Council of Public Sector Retiree Organisations (ACPSRO)

Tel: 02 6248 9609
Mob: 0412 164 404
Email: GriffithsRD@gmail.com