

Secretary
Senate Community Affairs Committee
Parliament House

Reference the Inquiry into the cost of living pressures on older Australians. I attach a summary of a report by Dr R Denniss setting out an obvious case for the change from CPI based increases in Commonwealth Public Servant's pensions to that equating with the increases granted to aged pensioners. You will have noted that ABS has decided that the increase in CPI over the 6 months September '06 to March '07 is zero.

I also wish to make mention that any increase in my Comsuper pension results in 40% decrease in my age pension from Centerlink. (I am 75). After this decrease I then pay additional tax on the remaining amount at 30% resulting in my net increase in Comsuper being reduced by 58%. I submit this to the Committee.

John Daniels Western Australia

EXTRACTS FROM A REPORT WRITTEN BY DR. RICHARD DENNISS - SEPTEMBER 2006

“Australia does not have an official cost of living index. The Australian Bureau of Statistics (ABS) publishes quarterly estimates of inflation, as measured by the Consumer Price Index (CPI), but they are explicit that this measure should not be confused with a cost of living index.”

“A single index cannot be expected to adequately fulfil all these roles.”

“The CPI provides valuable information about price changes, **but it is not designed to measure the cost of living for average Australians.** It ignores the costs of interest rates and the land on which houses are built. It ignores the costs of goods and services outside of capital cities and it conceals the divergence between the rising costs of staple foods and essential services and the declining price of electrical appliances and new cars.”

“The CPI smooths over diverging price trends but low income earners cannot respond to higher food prices by taking advantage of cheaper electrical appliances.”

“However, as discussed above, because of the determination of the Federal Government to have the Reserve Bank of Australia target inflation, it was necessary to reform the way the CPI was calculated.”

“This approach creates problems for those who wish to use the CPI as a measure of the cost of living.”

“For example, food has increased more rapidly in price than electrical appliances.”

“..... Over the same period fruit prices have increased by 112% and vegetable prices increased by 70%.”

“Figure 2 shows that, while the prices of men’s and women’s clothes have barely changed over the past decade, the price of bread and health services have risen by 48% and 50% respectively.”

“Since 1996, the price of private cars has declined by 19% while the cost of public transport has increased by 49%.”

“The purpose of comparing individual categories of expenditure is to demonstrate the extent of divergence that exists between categories and, in turn, to support the argument that the CPI, in it’s current form, is a poor indicator of the “cost of living”.”

“Over the past decade, the CPI has been changed significantly a number of times. **The objective of the changes has been to improve it’s use for setting monetary policy at the expense of reducing it’s effectiveness as a cost of living index.**”

“That is, in 1998, the ABS moved away from attempting to measure the “cost of living” and began measuring “underlying inflation.”

“The absolute reliance of most social welfare beneficiaries on the CPI for indexation of their incomes has changed with the passing of the Social Security and Veterans’ Affairs Amendment (Male Total Average Weekly Earnings Benchmark) Bill 1997, which provides for adjustments should the maximum rate of the CPI-adjusted single pension fall below 25% of the MTAW (ABS 1988b).”

“As the following quotations suggest, it now appears that we have a CPI which is neither useful as a cost of living index nor as a measure of broad inflation.”

“It appears that Australia now has a CPI that is neither a good measure of the cost of living, nor a good measure of underlying inflation.”