

Dear Sir,

ROLES OF CPI

I wish to make a private submission to the review. As a retired Army Officer on a Defence Force pension I am amongst the few who are still directly affected by the CPI. Since I retired in the 1980's my pension has been adjusted annually by CPI adjustments. In this time my pension's relativity to my cost of living has halved. Parliamentarians and others no longer use CPI for adjustment. Social Security, which is also supposedly adjusted by CPI, has had many other lump sum adjustments to cater for price movements beyond CPI indices'. It is no longer trusted and is only used for Defence and Government pensions, who have no say over its use.

Clearly over the past 25 years the CPI has not reflected changes in the prices of consumer goods and services, and is not trusted by business or the community.

It seems government's, of both political persuasions, have used the CPI for their own political purposes. Firstly to cut back on pensions to Defence personnel without the political cost of an actual cut. Secondly by giving an unduly low figure it allows them to keep interest rates low and make them appear good economic managers.

How this has been done shows great forecasting and expertise in government. The annual changes to the CPI have been so consistently accurate in keeping rates low that one would have to admit to some interference. Items are included when prices are falling such as interest rates, electrical goods, cars. Prices of items likely to rise such as petrol, food are reduced. When price movements are likely to reverse adjustments are made to the CPI.

While this may seem cynical the changes to CPI have been so consistently accurate for the past 25 years, and the results so effective, that it would be completely unrealistic to say it was chance.

The committee should consider the purpose of the CPI. Is it to :

- a. produce a figure to make the government of the day look good.
- b. produce a figure to manage monetary policy by setting interest rates.
- c. used as a means of adjusting incomes, pensions and prices.

Currently a and b seem to be the priority and are being met. In doing so it has become so dishonoured it is no longer used for wages or price adjustments in contracts. Only Defence retired pay is still using it.

If we are to have a CPI we should be clear on its purpose, use it only for that purpose, and make it independent of government interference so the community will have confidence in it.

Yours faithfully,
Graham C Davies