

**It's much worse than economists think!**

Erik Bagshaw's article ("Counting the cost of low wage rises" - CT p4 16 Jan) expresses concern because "The government has predicted inflation will rise from 1.9 per cent to 2.25 per cent by next year, which could leave some workers with a pay cut in real terms." It is, and will be, much worse than that.

Mr Bagshaw may not appreciate that the Government's published measure that it calls "inflation" does not measure the retail price of "... the rising cost of a bag of groceries", nor of many other household items. There is no published figure for the retail prices of all the items that go to make up the Consumer Price Index. The prices of many of those items are discounted before being published. Thus even a wage rise that is equal to the CPI, ie "inflation", will actually result in a reduction in the worker's standard of living.

If that occurs for several years then, due to compounding, standards of living will fall significantly, which will have a pronounced effect on the national economy as many people try to cut their retail spending to match their disposable income.

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