Australian Council of Public Sector Retiree Organisations Inc.

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

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Why typical wage rises don't cut it

The new push by trade unions for increased wages is needed because most wage rises in recent years have been the same as, or even lower than, the Consumer Price Index (CPI). Many wage earners must be wondering why their wages are less and less able to cover their personal costs of living when politicians have been saying that the CPI measures "inflation" and reflects retail prices.

What that overlooks completely is the unavoidable improvement in community living standards, which are impossible to ignore. This constant evolution of how we live is difficult to see on a short timescale but on a longer timescale it is obvious. Think back twenty or thirty years. With few exceptions, those improvements have carried a price penalty.

Some of the improvements cannot be avoided. A family has a toaster that blows up. It has to be replaced by purchasing a new one. The new model does not have the crude mechanical timer which was part of the old toaster. The only replacements available all have precision solid state timers with at least three buttons for terminate, reheat, and allowance for frozen bread. The family finds that the price is ten dollars more than what they paid for the old toaster. That extra ten dollars comes out of their pocket and they may need to cut something else from their expenditure.

A common misconception is that the ten dollar increase would be captured in the calculations by the ABS of the overall change in the CPI. The reality is that the ABS will make a downward adjustment for *quality changes* to the price of the improved toaster because its quality has improved and the CPI is based on comparing like with like, no matter that the old version is not still available in the shops. Exactly how much the ABS takes off the price for the quality improvement is not published. There are thousands or examples like this. Studies done in the USA in 1996 for the Boskin Commission suggested that this kind of unavoidable creep in expenditure amounts to at least 1% over and above the price increases that make up the CPI.

There is another kind of change where the old product or service continues to be available and its price change is what goes into the CPI. But there are social and technological pressures which make new expenditures almost obligatory – lunches at child care or smartphones to allow parents to track children, or the upgrade-or-else cost of replacing G2 phones and analogue TVs before their signals were switched off – and as that must come out of the family budget *now*, the family will be forced to cut back on some other expenditure.

In the Olden Days, before the GFC, wages generally exceeded the CPI by about 1.2-1.5%. The CPI is now running at 1.9% pa. To maintain what most people would think of as "purchasing power" or "standards of living", incomes therefore need to be increasing at about 3-3.5% pa. If they are not, then the effect of the -1.2 to -1.5% or so is compounded each year. The hardest hit have been those Centrelink benefits that have been indexed by only CPI over decades, then there are indexed annuities and defined benefit pensions that have suffered similarly since whenever the pensioner retired. Today most wage earners and Age pensioners, whose pensions are linked to wages, have been suffering similarly since the GFC. No wonder the pips are squeaking!

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