

The New Zealand CPI at 100 – History and Interpretation

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Reviewed by Len Cook

The book aims to show what can be learned about New Zealand's economic history from the collection and compilations of consumer prices over the past century, and the varied importance that has been placed on them. *The New Zealand CPI at 100 – History and Interpretation* is a good reminder that there is much that we could still be still learning. However, the disparate and somewhat eclectic nature of the individual chapters in this book necessitate editorial oversight to link chapters. The book does not round out issues that are incompletely covered, and there is a need for some cohesiveness in style and language that is essential for wider reading of works with a technical orientation.

There are missing topics, among them the place of the CPI among other measures of price change, the measurement of the real economy, the impact of technology not only prospectively but in the past, the Australian connections and the changing focus of attention of quality assessment. The practicalities of collecting and processing a multiplicity of prices over a century has changed hugely, and that evolution has influenced methodological options for the index. For those involved in the compilation of the CPI, there are pointers to past trade-offs that could have been thought through more openly and analytically. The practice of not revising the CPI (It was revised in November 1999, as a consequence of errors in compilation) imparts little about the precision or bias in the index, and oversimplifies the need to recognise the practicalities of index revision and operation. The practice of not revising also constrains methodology choices, for example for seasonal adjustment. These might have been more comprehensively referred to with effective editorial oversight.

The evolution of commodities in the CPI and the changing dispersion of commodity prices around New Zealand are both signals and consequences of New Zealand's economic development and the growing welfare of its population. The chapters by Easton, Gibson and Scobie, Bentley, Krsinich, Victorio and by Rendall all point to areas where official statisticians have usually tended to assume that the prime focus on the operational integrity of price collection and adjustment was sufficient to underpin the integrity of the index. In themselves, these chapters bring together a body of work that has continued relevance for the future, as the diversity in the nature and range of commodities increases, while their life cycle shortens. These chapters point to areas where the balance between conceptual, methodological and operational integrity may have been better struck, or at least much better argued. These areas include the selection of the index formula, the treatment of housing, the adjustment for quality change as the rate of turnover of models has increased, and the publication of indices relating to the expenditure patterns of particular population groups.

The chapter by Krsinich points to the future evolution of the CPI, which implies that we may be on the brink of a somewhat more fundamental shift in the way prices are typically gathered and compared in a world where recording, monitoring and exchanging information is itself now relatively costless. Uninhibited by computational constraints, official statisticians of the future will be able to draw on many more measures and approaches to summarising, just as the work of Sadetskaya and Oxley have highlighted previously unexplored patterns from the last century of price collections.

The experiences in the application of the CPI to monetary policy described in the chapter by Rendall may point to the acceptance of judgements and assumptions behind the practices of the CPI now being perhaps more fraught when prices on average change little, and conceptual and methodological limitations influence estimates to a disproportionate extent. When price change is not far from the range set by the Price Targets Agreement of the Governor of the Reserve Bank, then how the various forms of bias accumulate will be of more than academic interest. What is well demonstrated by the mix of studies referred to in the chapters by Gibson and Scobie, Bentley and Krsinich, is that making ex post adjustments to the published CPI for just one of these limitations may increase rather than reduce the utility of the CPI for other purposes. Implicit in the unstructured approach to organising the chapters of the book is the lack of an agreed comprehensive framework for the integrity of the consumer price index from the perspective of its own consumers. The chapter by Easton points to the reasons why developing such a framework is still a work in progress.

The evangelical fervour for the newly discovered recognition of the changed place of the CPI in economic policy, particularly that of the Reserve Bank of New Zealand in the early 1990s, was not initially complemented by deep analytically based considerations. In rebuttal, official statisticians in New Zealand found solace in the general response of the international statistical community which regarded these interests as a policy or political deviation. These theatrics probably delayed change by several years, but more particularly polarised discussion about the CPI among those best placed to lead it across the statistical and economic communities. This book is a very welcome contribution, and one wishes we had it two decades ago. It is a sign of the importance of the issue, and the maturity we now have, that an official statistician is the editor of a publication which presents the thinking of economists.

Of the book itself, the preface is somewhat loosely written compared to the papers themselves. The preface might easily be ignored for the little insight and cohesiveness it adds to such a series of separately authored chapters. The chapter by Forbes, Higgs, Keating and Roberts provides a comprehensive chronology which will be a long-lasting contribution to studies of New Zealand's economic history. Even so, their treatment of the evolution of the CPI might have been helped by placing the CPI in the wider context of price measurement, inflation, measuring the real economy, and more extensive discourse on the way markets have evolved, including the place of finance and services. The Richardson enquiry into inflation accounting in the late 1970s inspired a whole new integrated series of input and output price indexes spanning the economy, while a new series of real disposable income indexes at that time recognised a similar need for households. Both improved the reliability of how we measure the real economy. The evolution of the place of advisory committees might well have been included in this chapter, rather than that of Pike. Similarly, the close links between practices in Australia and New Zealand might have been explored further, not only because of their historical similarities, but how even difficult contemporary decisions, such as the treatment of interest in the late 1990s, have pointed to close collaboration.

Easton's chapter on the political economy provides the wider context for the occasionally somewhat eclectic and occasionally ill-explained change to methods over the century. The chapter on CPI frameworks by Pike outline the basic alternative approaches, and he presents how those approaches have changed over the past 100 years. The treatment of housing is itself worthy of a more comprehensive study in this history.

A study of the political context within which the measurement of housing in the New Zealand CPI has evolved over the last century would highlight the ways in which the methods of the

CPI have responded to changes in the predominantly received wisdom of economic management. For example, the treatment of owner-occupied housing has bedevilled statistical offices around the world, and prevented agreement on any form of universal standard for consumer price indexes comparable to that for national accounts or demographic statistics. That difficulty has been reflected in the mix of approaches used in the NZ CPI, and in the pragmatic nature of their selection in any period. The efforts of the European Community to agree on a common methodology for Consumer Price Indexes have foundered on the difficulty of achieving consensus on the measurement of housing. The United Kingdom adopted one variant of the EU standard in 2003¹, in part to avoid the severe constraints on making changes to the Retail Prices Index, which was until then the foremost measure of change in consumer prices. Change to the UK Retail Price Index of any sort requires the agreement of the Governor of the Bank of England that gilts issued by the bank in the past would not have their future value affected by any change in the RPI which was used to adjust their value. That New Zealand has generally avoided these types of obligations has been important to New Zealand, where the indexation of the Governor-General's salary and the value of welfare benefits have been the dominant known statute defined applications, other than the formulae used by the Reserve Bank since 1990.

Pike's chapter is complemented by that of Roberts on making weights. The history of budget surveys alongside that of the index itself reflects the growing sense that governments should influence the welfare of citizens, and the need for an informed basis for this. Unlike the United Kingdom, where the study of poverty played a major role in research into the consumption of households, New Zealand's early efforts were more focused from 1911 on improving index weights. Most will be surprised at the richness of the history uncovered by Pike, and the innovative ideas to build up response rates.

The chapter on the CPI basket by Forbes on Food and Transport and that by Sadetskaya and Oxley all uncover aspects of our economic history through analysing prices and price indexes, presenting and explaining the economic and political significance of trends and structural change. They rightly elevate prices as important measures to be placed alongside the flows and stocks of commodities and flows of services that dominate understanding of our economic history. They also stimulate thinking about how far the focus on price indexes has caused us to undervalue and underuse the wealth of price information gathered by official statisticians (and now increasingly made available by other means) as does the chapter by Krsinich. The chapter by Bentley on special consumer price indices highlights one area where that curtailing of analysis may have reduced our understanding of the limitations to the consumer price index when used to infer change in the purchasing power of particular groups in the community. The book is a somewhat wide-ranging mix of chapters, which might have been more coherently linked and ordered. The themes could have been linked more visibly by way of an overall chapter, and also expanding on the brief concluding note by Hawke and Victorio. Overall, *The New Zealand CPI at 100 – History and Interpretation* will be valuable reading for both those interested in economic history, but also those who are looking to see where some of the new developments in the CPI and price indexes might come from. However, it is not an easy read for someone who is not already familiar with index concepts and practice, and the book should be more appropriately presented as a collection of papers rather than as a comprehensive discourse about the history of the CPI and its interpretation.

Len Cook.

¹ This writer introduced the Consumer Price Index in the UK, when National Statistician.