

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates 3-5 June 2008

Question: bet 60

Topic: Consumer Price Index

Hansard Page: E5

Senator Coonan asked:

Senator COONAN—Yes, I am aware of that. Was this the first time that the CPI has been used this way in Australia?

Mr Martine—As far as I am aware that is correct.

Senator COONAN—In as far as you know, do other countries use a consumer price index for the purpose of measuring real growth in their budgets?

Mr Martine—I would have to take that on notice. I am not too sure whether other countries use the CPI. In fact they may use different deflators, but I would have to take that on notice.

Senator COONAN—I would appreciate if you could do that. I do not know the answer to it, but I would be pleased if you could enlighten us. What percentage of Commonwealth government purchases are made of goods and services within the CPI basket?

Mr Martine—That is an interesting question. I would once again have to take that on notice. As you can see from the table on page 10-8, we do provide total payments. In terms of the breakdown, most of the details and expenses are outlined in statement 6, but I do not think that we break it down to that level. Just bear with me. I would need to take that on notice.

Senator COONAN—Yes. The proposition that I want to put to you, and you can obviously take it on notice, is that it seems that it would be a low percentage of Commonwealth government purchases that do appear in the CPI basket, and I am interested to know if that is correct when you have a look at it. And I want to know how it is reconciled with the statement that you referred to that the CPI provides a more accurate description of real government spending growth, especially in the current economic climate. Can you reconcile that for me? I would appreciate if you could take it on notice.

Mr Martine—I will have to take that on notice.

Answer:

Some countries do not provide an historical analysis of real spending trends in their budgets. Jurisdictions that do present such data calculate real spending growth using different deflators. Table 1 of Statement 10, Budget Paper No. 1, presents the real growth in payments for the Australian Government general government sector using both the CPI and the non-farm GDP deflator.

In relation to the relevance of CPI to Government purchases, it is important to make the distinction between government purchases and payments. Around 40 per cent of

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total payments are made directly to households in the form of personal benefit transfers and employee payments. It is appropriate to deflate this component by the CPI because the real value of household income is best measured in terms of the consumption possibilities available with that income. The bulk of the remaining 60 per cent are grants and subsidies, and payments for goods and services. While it is not possible to accurately allocate these payments to individual goods and services, it is likely that a significant proportion is ultimately spent on items within the CPI basket such as health and education. On balance, CPI is considered the best single deflator to use to derive a measure of real spending. In the current economic climate, other deflators incorporating the terms of trade effect give a less accurate measure of real government spending. While the commodities boom is boosting economy-wide prices, the proportion of government payments made on goods and in industries related to the commodities boom is relatively small.