

CHAPTER 1—INTRODUCTORY

1. On the first point in its order of reference—the need for a revised cost-of-living index—the Committee had little difficulty in arriving at the decision that a new index representing post-war habits of consumption was desirable. The group weighting pattern of the retail prices (old series) index was based on the results of a family budget inquiry conducted in 1930. Since that year there have been many changes in consumption habits—for example, the greater use of electricity and electrical appliances in the home, increased relative consumption of fruits and vegetables, breakfast cereals, milk, ice-cream, &c.—so that the “old series” index has become out of date. The Wartime Prices Index, introduced in December, 1942, was designed to measure variations in the retail prices of a group of stabilized commodities and services. This group of commodities and services was selected to represent reasonable wartime standards of consumption. An index designed for this purpose cannot be regarded as a suitable measuring-rod to gauge post-war changes in prices.

2. For the reasons outlined above, the Committee decided to recommend that a new index, based on post-war habits of consumption, should be compiled. Following are our proposals.

CHAPTER 2—DEFINITION OF THE INDEX

3. The name, “cost-of-living index,” is applied at various times and in various circumstances to vastly differing concepts. The term has not been used in New Zealand as describing official price indices, and the Committee recommends that the new index be called a consumers’ price index, and that the term “cost-of-living index” be avoided. Actually, there is no such thing as a general cost-of-living index, since the cost of living of a family varies widely according to various factors—*e.g.*, size and age constitution of the family, variations from the conventional in the living habits of the particular family, and so on. However, changes in retail prices affect all families—hence the usefulness of some measure of average changes in such prices. Since, quite obviously, changes in prices of commodities and services used in great quantity have a much greater effect on average living-costs than price changes of items in less common use, a consumers’ price index must be “weighted”—that is, it must accord greater importance to price changes in the more important items. There is, however, room for considerable difference of opinion as to the proper criteria of importance. Some index numbers are confined to “essential” commodities and services, the designers of such indices deciding which items are essential and which are not essential. Again, other indices relate to “working class” patterns of expenditure; expenditure of “families of moderate incomes”; “minimal” standards of expenditure; “maintenance of proper nutritive standards”—their variety is legion. The position is further complicated by the fact that habits of expenditure may vary considerably according to the geographical location of the family, the economic group of the family, and other variants.