<u>Report on NPC & PSPC Activities to UCU Congress 2019: Philip Burgess</u>

I reported to the UCU RMB AGM held on Nov 21st 2018. A copy of that Report may be obtained from HQ. This Report covers my activities since November.

<u>1. PSPC (Public Services Pensioners' Council)</u>

1.1 I was nominated by UCU to stand for the PSPC NEC and elected to that position at the PSPC AGM on 15th. May 2018. I have been nominated by the UCU RMB AGM to serve on the PSPC NEC for 2019/20. Since the PSPC AGM takes place on 14th May shortly before Congress, I will give an oral report on this meeting at Congress. I will also, if possible, provide a copy of the PSPC General Secretary's AGM Report which will give a comprehensive account of what the PSPC has done in 2018/19.

1.2 I would draw attention to the following issues which PSPC has been pursuing this year.

1.2.1 During the year, Lisa Ray, our former General Secretary resigned following her appointment as the new General secretary of CSPA (Civil Service Pensioners' Alliance). We were very sorry to lose Lisa since she had proved to be a very vigorous champion of pensioners' rights. It was agreed that once the CSPA had appointed a new Assistant GS, they would be co-opted as our temporary GS until the 2019 AGM at which point a new GS would be appointed. Subsequently, David Luxton was confirmed as the new General Secretary of the PSPC. David and I both attended the NPC Biennial Delegate Conference in March, so I was able to have a conversation with him. I am confident that he will be a worthy successor to Lisa as a champion of Public Sector pensioners.

1.2.2 <u>Universal Pensioner Benefits.: Free TV licences for the over 75's.</u>

The PSPC wrote to the director of Policy at the BBC to emphasise our policy that the licence fee should continue to be waived for the over 75's. Subsequently we responded to the BBC's consultation by making this point, and joined with the NPC in a demonstration on March 7th at the Department for Digital Media Culture and Sport. Letters were written to Jeremy Wright MP (the Culture Secretary) and to Tom Watson M.P. The campaign will continue.

1.2.3 <u>Membership of Age Platform Europe.</u>

PSPC is currently a full member of this organisation which is a non-profit European network of some 150 non-profit organisations of and for people over 50 in the EU. It aims to fight discrimination and promote the rights of older EU people and foster their involvement at EU level. Were the UK to leave the EU, PSPC could retain membership until the end of any transition period but thereafter, would need to transfer to affiliate membership and would be ineligible for EU funding for any expenses incurred. This would probably be too costly for PSPC to support. The situation is unclear at present. A motion may be brought to the AGM to determine our future relationship with Age Platform Europe.

1.2.4 <u>Intergenerational Fairness.</u>

As I noted in my report to the last RMB AGM, PSPC made a detailed submission in response to a public call for evidence from the House of Lords Select Committee on Intergenerational Fairness and Provision. The submission was attached to that Report. In brief, we argued that the problems of the young could not be blamed on the old and, taking benefits from the old was not a solution.

We have invited Jack Dromey M.P. (Shadow Pensions Minister) to address the PSPC AGM on this and other subjects.

1.2.5 <u>Indexation Issues.</u>

As noted in my Report to the RMB AGM, Lisa wrote to House of Lords Economic Affairs Committee to give our views regarding their inquiry ("Measuring Inflation") into methods of indexation designed to compensate for inflation. Inter alia, we deplored the Government's practice of "index shopping" by using RPI when taking revenue in while using CPI (which is invariably lower) when paying out to claimants. When he addressed the PSPC hustings meeting during the General Election before last, Guto Bebb MP (the Conservative Party spokesman) described this practice (known as "index shopping") as "indefensible". Nevertheless, subsequent Governmental spokespersons have defended the practice.

The HoL Report was published on 17th. January. While it is of obvious relevance to pensioners, the issue of indexation also affects UCU members generally, so I thought it worthwhile to put some thoughts on this report to the PSPC NEC and also to UCU HQ. These are reproduced below. They consist of a copy of the e-mail exchange between myself and the HoL Committee followed by some comments from myself and some suggestions about how UCU might respond to the Report.

Owing to current events at UCU HQ, I have not yet received a response so I would welcome any comments and suggestions that this meeting might have. As I say, I think that this issue is of some concern to UCU retired members but no less to UCU members still working.

2. House of Lords Economic Affairs Committee: Measuring Inflation Jan 2019

2.1 House of Lords Economic Affairs Committee 5th Report of Session 2017-19: Measuring Inflation. Published 17 Jan 2019 (online correction 21st Jan). See e-mail from Lisa Ray to PSPC NEC on 17th. Jan 2019 or House of Lords Economic Affairs Committee website for (corrected) online version.

2.2 E-mail exchange between PB and the Committee.

2.2.1 E-mail from PB to HoL EAC 18/01/19

Dear Sir/Madam,

I think there is a misprint on page 30 of the report from the House of Lords Economic Affairs Committee. On page 30, footnote 82 states that:

"Under the Jevons formula, the average price changes would be (2 x 0.5) to the power 2. Surely this should be to the power of 1/2 ie the expression should be square rooted not squared?

Regards,

P. K. Burgess.

2.2.2 Response from HoL EAC (Ben McNamee) 21/01/19

Dear Mr Burgess,

Yes, it is a misprint, thank you very much for bringing it to our attention. We will correct it in the online version of the report.

Regards
Ben McNamee
Policy Analyst
Economic Affairs Committee
House of Lords
SW1A 0PW

2.2.3 Response from PB to Hol EAC 22/01/19

Dear Mr. McNamee,

Thank you for your prompt and helpful response to my query.

I think the one reason why the mistake was not spotted is that the example given by Jevons (in para 86 and footnote 82) is a poor one in that the expression inside the brackets comes to unity. Therefore, raising the expression to any power from zero to infinity will give the same answer. The mistake is therefore not obvious at first glance.

There is another point arising from this example that I would like to draw to the Committee's attention.

I accept that using the arithmetic mean (as in Carli) can encounter a paradox when prices go up and then revert to their original values. However, the geometric mean (as in Jevons) can encounter a paradox too. This is well illustrated in the very example that Jevons gives and which is quoted in the Report at paragraph 86 and footnote 82 (as corrected).

Jevons says that when the price of cocoa doubles and the price of cloves halves, then the Carli (arithmetic mean) formula will say that prices have increased by 25% .... yet there has been "no alteration of price whatever." That's why he prefers his (geometric mean) formula since it shows no price change. Now in the realm of mathematical abstraction, he has a point; up to a point. However, let's look in the realm of practical shopping.

Consider two people. Tom (Carli) has his benefits uprated for inflation using the arithmetic mean (as the RPI used to do). Dick (Jevons) has his benefit uprated by the geometric mean (as the CPI does). At the start of the year, both are given a pension of £2 by the Government which they will spend on cocoa and cloves. (This is a bit of a restricted lifestyle, but it will do for the sake of argument).

Both Tom and Dick go to the grocer and ask for a pound of cocoa and a pound of cloves. The shopkeeper says "that will be £1 for the cocoa, and £1 for the cloves; £2 in all". They both hand over their £2 and everyone leaves satisfied.

During the year, the price of cocoa doubles and the price of cloves halves. The Government uprates their pensions to take account of this. Tom (Carli) gets a 25% increase (2+0.5)/2 = 125% - 100% and feels quite rich. Dick gets a 0% increase since on the Jevons formula, there has been "no alteration in price" ie square root of (2x0.5) = 1 ie 100% - 100% = 0%.

Now they both go to the shop again and ask for a pound of cocoa and a pound of cloves. The Shopkeeper says to Tom "that will be £2 for the cocoa because the price has doubled plus 50p for the cloves because the price has halved, so that will be £2.50 please". Tom hands over the £2.50 the Govt. has given him and although he realises that his uprated pension has not made him any richer than he was before, at least he has been able to maintain his lifestyle.

Dick has a less satisfactory experience. When the shopkeeper tells him that his basket of cocoa and cloves now costs £2.50 he protests that he still has no more the £2 that he had last year because "according to the Jevons formula, there "has been no alteration in price". The shopkeeper tells him that in the real world his basket of goods now costs £2.50 and he must therefore either dip into his savings or cut back on his extravagant lifestyle. However, nothing can alter the fact that the cloves and cocoa now cost £2.50.

Now, who has been treated fairly by the Government, and who has been short-changed? Does the Economic Affairs Committee have an answer to that question? I look forward with interest to a reply,

Regards,
Philip Burgess.

2.2.4 Response from HoL EAC (Ben) 23/01/19

Dear Mr Burgess,

Thank you for the example. Paragraph 89 in the report noted evidence the Committee received that the Jevons index may under-estimate price increases.

Given the difference in expert opinion documented in Chapter 2, the Committee felt that it was not in a position to reach a conclusion on the merits of the arithmetic mean versus geometric mean, for the purposes of aggregating price increases where expenditure weights are unavailable.

Regards
Ben

2.2.5 **Comments:**

i) The Committee is comprised of some quite substantial luminaries including two former Chancellors of the Exchequer (Darling and Lamont), a former Scottish Secretary (Forsyth) and the author of a Report on the role of Audit Committees and ethical standards in the City (Turnbull). It took evidence from many eminent statisticians and was advised by the Royal Statistical Society (RSS).

ii) The Report itself is quite helpful in a number of ways. It is openly sceptical of many conventional wisdoms embraced by the great and the good and it is critical of the “index shopping” practised by HMG and the excuses made for it. Perhaps, most importantly, it takes note of the criticisms that have been made of the Johnson Report and the uncritical groupthink with which that Report was received. It acknowledges Johnson’s own partial recantations. In particular, the Committee examines many arguments regarding the advantages or otherwise of the geometric mean (as advocated by Jevons et al.) and the arithmetic mean (Carli) and finds itself unable to decide between them. This is an advance on the uncritical advocacy of Jevons (and CPI) which we have seen up until now. The Committee also examines the relative strengths and weaknesses of the RPI (and variants) and the CPI (and variants). It does not dismiss the RPI and advocates that its problems could and should be fixed.

iii) I have to acknowledge that the “time reversal” paradox (see paras 84-94) is a problem which advocates of Carli must address. However, The RSS and other experts seem to be satisfied on this point. And as shown in (4) above, Jevons encounters a paradox too. Notwithstanding the erudite arguments advanced by the RSS, perhaps a simpler solution is available? If prices are discovered to have increased and then reverted to the *status quo ante* within a particular time period, then, then perhaps one should calculate several Carli indices covering successive periods within the relevant time frame? This would show more clearly how prices had changed over time and would be more informative than a single Jevons figure.

iii) The Report has weaknesses. Firstly, it pays almost no attention to the HII (Household Inflation Index) aka the HCI (Household Costs Index) which is being developed by Leyland and Astin of the RSS, in spite of the fact that Jill Leyland stated in evidence (para 152) that the HCI could replace RPI, and John Pullinger (of the ONS) stated (para 181) that he would like to turn the RPI into either the CPI [which I think would be a very bad idea] or the HCI.

iv) Another weakness appears in para 86 and footnote 82. Although the Committee notes (para 87) that “some witnesses felt that much of the criticism of the Carli formula was unfounded”, it quotes (without criticism) an example given by Jevons which he supposed to illustrate the superiority of the geometric mean over the arithmetic mean. One feels that the Committee had not looked at this example closely enough.

Firstly, as pointed out in e-mail (2) above, there is a misprint in the formula given This was corrected immediately in the online version of the Report but, one must assume persists in all extant hard copies, which would have gone to the National Press.

Secondly, the Committee failed to spot that the example quoted by Jevons in fact refutes his own contention. As may be seen in the e-mail (4) from PB to Mr. McNamee, in the example which Jevons cites, a claimant receiving compensation for inflation according to the Carli (arithmetic mean) formula would be no worse off than before. In contrast, a claimant receiving compensation for inflation according to the Jevons (geometric mean) formula would be short-changed. Jevons appears to prefer this outcome (para 86) but I do not and I assume that Dick wouldn’t either.

It is disappointing that Mr. McNamee thanks me for this example but appears to think that the position of neutrality taken by the Committee vis a vis the Carli and Jevons formulations is sufficient response. Perhaps the PSPC NEC and other bodies should engage with the Committee to pursue this point?

I had thought that the RPI was a dead duck, notwithstanding the fact that it was the preferred index of, inter alia, both the PSPC and UCU. There were two reasons for this. Firstly, since CPI invariably yields a lower value for inflation than RPI does, then any Government is bound to prefer it, particularly if they can "shop" for the RPI when taking revenue in and the CPI when paying benefits out. Secondly, the CPI was introduced by the EU as a means of comparing performances between different economies within the EU. The CPI is therefore, not fit for the purpose of uprating benefits within any particular economy, as has been pointed out by the RSS. Nevertheless, all governments in the EU could be expected to resist abandoning CPI. However, if the UK were to leave the EU, this argument would no longer apply. The helpful discussion of the merits of RPI and the demerits of CPI contained in the Report (notwithstanding their neutral conclusion) might give us some hope that RPI could yet rise from the grave?

2.2.6 **Suggestions:**

I'm not sure how far the HoL Economic Affairs Committee is open to further engagement, or where their Report goes next. However, it might be worth considering making a response to the Report.

We could ask then directly to answer my question about the outcome of the "Jevons paradox". Do they believe that Tom Carli has been fairly treated while Dick Jevons has been short-changed?

We could invite them to discuss the prospects of the HII in more detail than they did in their Report. We could ask Jill Leyland to enlarge on her views as quoted in the Report.

We could re-emphasise the desirability of returning to the RPI while maintaining our watching brief on the progress of the HII.

P. K. Burgess (24/01/2019)

The debate is clearly not yet over and I would be interested to hear from this meeting what further steps we could ask PSPC and UCU to take in order to safeguard the interests of all of our members; working and retired.

3. The NPC Finance Working Party.

3.1 As ever, the FWP has been preoccupied with looking for ways to increase the NPC's income and controlling its expenditure.

3.2 As reported previously, the NPC was forced to move out of our offices in the HQ of the TSSA (generously provided at a low rent) since it was compulsorily purchased to make way for HS2. A major setback was the poor level of compensation that we were offered. Having taken legal advice, that it would be expensive and risky to appeal against the offer which was therefore reluctantly accepted.

3.3 The bank charges imposed by UTB (owned by the Trade unions) became so extortionate that NPC decided to use the less rapacious Co-Op Bank (now owned, somewhat ironically by an American Hedge-Fund) for most of our financial Transactions.

3.4 It was agreed to explore the extent to which the "Easyfundraising" mechanism could be used more extensively. For example, by exhorting members submitting expense claims to pay for their travel and other expenses via that platform.

4.The Pensioners' Parliament Review Commission.

4.1 I was nominated to serve on this Commission by the FWP. The commission reported to the BDC in March. A number of suggestions for making the PP more attractive were proposed and it was hoped that these would increase the attendance and hence the income. It was recognised that moving the PP from Blackpool would be unlikely to solve its problems, but that if Blackpool Council were to reduce its subsidy significantly, then the event could not continue in its present form.

4.2 The Report of the Commission was adopted at the BDC in March.

5. The NPC.

In my opinion, the NPC is a valuable campaigning organisation which campaigns for the rights of pensioners generally and defends those benefits which seem always to be under threat. Its campaigns are of relevance to all UCU members whether they are retired or still employed. The NPC is appreciative of the support it receives from UCU and other unions. I make no apology for repeating below some suggestions regarding the ways in which our members cam support the NPC:

i) By joining NPC groups

ii) By becoming "Friends of the NPC"

iii) By using the "Easyfundraising" mechanism to garner a donation whenever they make an online purchase from one of the many participating businesses. You can do this by going to the website easyfundraising.org.uk and registering with a username and password. You then nominate the NPC as your "good cause". Thereafter, before buying anything online, you go to the easyfundraising website, login and search to see if the firm from which you are making your purchase supports the scheme. If so, easyfundraising will take you to their website and you make your purchase in the normal way. The donation to the NPC is made automatically at no cost to yourself.
It was noted at one of the NPC NEC meetings that only about 30 NPC members use "Easyfundraising". If we could persuade 3,000 people (at no cost to themselves) to participate, then the finances of the NPC would be given a phenomenal boost and we would no longer need to keep coming back to our unions with a begging-bowl.