HOUSE OF LORDS

Select Committee on Economic Affairs

Uncorrected oral evidence: The use of RPI

Tuesday 19 June 2018

3.35 pm

Watch the meeting

Members present: Lord Forsyth of Drumlean (Chairman); Baroness Bowles of Berkhamsted; Lord Burns; Lord Darling of Roulanish; Baroness Harding of Winscombe; Lord Kerr of Kinlochard; Lord Lamont of Lerwick; Lord Layard; Lord Sharkey; Lord Tugendhat; Lord Turnbull.

Evidence Session No. 3 Heard in Public Questions 23 – 31

Witnesses

I: Simon Briscoe, Consultant on Statistical Matters; David Lloyd, Head of Institutional Portfolio Management, M&G Investments; Dr Geoff Tily, Senior Economist, Trades Union Congress.

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Examination of witnesses

Simon Briscoe, David Lloyd and Dr Geoff Tily.

Q23 **The Chairman:** Mr Briscoe, Mr Lloyd and Dr Tily, I am sorry that we kept you waiting. Welcome to the Economic Affairs Committee.

I will open with an easy question. Do you agree with Sir David Norgrove that RPI is an inadequate measure of inflation?

Simon Briscoe: No, I do not agree. The measure is fundamentally fine. It has been developed in its current form for 60 or more years, through a number of reports by the RPI advisory committee, so it is very well founded.

The problem is that in 2010 there were some rather ill thought out and poorly made "improvements", as they were called, to the collection of clothing, and since then the numbers have not quite been right. The adjustments that need to be made to it are rather modest and relatively easy to make. They would cause little upset. That would be a much better way forward than the policy of neglect, as we might call it, which the ONS has decided to follow.

Dr Geoff Tily: At present you could argue that the RPI is probably inadequate, but "inadequate" is a much more measured and modest term than some of the rhetoric that we have heard in recent weeks. I noticed that at the hearing last week Jonathan Athow described the RPI as a broken-down car, while Paul Johnson wanted it to wither and die. Martin Weale said at the RSS that he wanted it put out of its misery.

It is a bit hard to avoid the fact that some of this rhetoric hides the fact that the intellectual case against the RPI is not strong. The fundamental issue with the RPI is with the formula. Many of the other issues which the ONS raised in its paper looking at the shortcomings of the RPI are red herrings. They result mainly from changed priorities for inflation measurement rather than problems in their own right.

As Simon says, even in the case of the formula, it is less about the formula and more about the way prices have been collected in the RPI and the fact that the so-called improvements in the ONS's price collection turned out not to be improvements but to being about one issue being a problem and another issue being a problem, rather than telling us anything that we did not know about the formula.

It is fundamental to what we are talking about at the moment but also to the longer-term debate that the dominant issue ahead of 2009 was the downwards bias in the CPI. Since 2009, the dominant issue has become the upward bias in the RPI. I have sent the Committee separately my thoughts on this debate. I think a number of other informed people, in particular Simon and others from the Royal Statistical Society, have referred to it as a fundamental misjudgment.

The Chairman: We are quite a diligent Committee. You can assume that we have read your paper.

Dr Geoff Tily: Thank you. We had an event last week at the Royal Statistical Society where John Pullinger hoped that he had not been disrespecting the RPI, set against generations of effort to put it together. I respect that sentiment, because as far as the TUC is concerned the RPI is one of the most important and prominent official statistics. The language has not been helpful.

Paradoxically, the more invective is hurled at the RPI the stronger public confidence in it becomes. It is still the starting point for wage negotiations, over half of which describe it as the most relevant cost of living. It may be inadequate, but we should be doing much more than making it less so. We should be renewing it and vindicating the public's confidence in the measure.

David Lloyd: I am a user of RPI rather than a statistician, but having watched the proceedings last week it struck me as interesting that something that is so utterly embedded in so many areas—financial, economic and others—is deemed easier to get rid of than to mend. That was extraordinary.

I also thought it extraordinary that the UKSA and the ONS almost put their hands up and said, "There's nothing we can do". I wonder whether that position is open to challenge, purely because—I am sure the ensuing conversation will shed some light on this—I cannot believe that it is easier to dispense with it than to mend it.

The Chairman: Is that just a matter of belief, or do you have an idea of how it could be fixed?

David Lloyd: That is for the statisticians.

The Chairman: Right, so it is a matter of belief. Before anyone else answers, one thing I find a bit curious is that the ONS describes it as a very poor measure of general inflation, for example, yet the 2007 legislation requires the ONS to promote and safeguard the quality of official statistics. That would imply that it is not actually meeting its statutory duty. Do you agree?

Simon Briscoe: Absolutely, yes. But if I can address the fixing point, you had to endure the discussion about strappy tops last week. Since 2010, there have been many meetings where people have discussed strappy tops, because it is the most ludicrous example of where the price index has got it wrong. We have to bear in mind that strappy tops are one-thirtieth of 1% of the RPI. I can think of no other area of life or public policy where if one three-thousandth of something was wrong, we would discard the whole lot. We would simply mend it.

The ONS has commissioned reports over the years that suggested removing some of these minor items. There are 30 or 40 categories of clothing within the overall 3% of the RPI that is for clothing. We should just remove some of those items, simplify them or change the way we collect the prices. It is simple to resolve it in that way, because the vast bulk of the gap between CPI and RPI that you heard about last week is down to clothing.

Q24 **Lord Sharkey:** Is there a substantial difference between the inflation faced by pensioners and the inflation faced by working people?

Dr Geoff Tily: I do not know the correct answer to that, but it is possible. I know that the ONS has produced some measures before that looked at the inflation rates faced by different cross-sections of the population. I cannot remember what the pensioner one showed, but I know, for example, that for long periods since the financial crisis the rate of inflation has been higher for those on lower pay.

With respect, that is one of the issues, but it does not get away from the fundamental issue about the formula. It is possible to construct different measures for different sections of the population, but I still think that for any of those measures to be viable and valid, the formula issue also has to be addressed in that comparison.

Simon Briscoe: I do not have all the numbers at my fingertips, but I would be happy to provide a note to the Committee, if it wanted. The work done by the ONS, supported by independent work, suggests that there is a range of a little more than 1%, so if you had an inflation rate of 2% in aggregate, the inflation rate experienced by different types of households might be between 1.5% and 3%. That is based on differences in income and what people spend, and between household types. There is a noticeable and measurable difference.

If I may go one point further, one of the fundamental differences between the RPI and the CPI is that the RPI tries to account for that. You heard last week that several groups of people are removed from the RPI; for example, the top 4% of income earners. That is a deliberate decision made sometime during the 1960s, 1970s or 1980s—I am not sure when—because it was not appropriate to include the extremely wealthy and their expenditure patterns in a measure that it was hoped would measure a typical household’s income.

As we look around London in the summer, when we might find lots of overseas nationals coming here and spending their millions on jewellery in Bond Street—perhaps they commission their new yacht or buy their private planes—the whole point of the RPI is to exclude that sort of expenditure from it, because it is not that of a typical household. The CPI, for what it is worth, will include it.

Lord Sharkey: How about the development of the new household cost indices? Do they have a role in trying to reflect more accurately the differences in inflation experienced by various groups? Are they intended as a replacement for the RPI?

Dr Geoff Tily: In my opinion, I understand why the household cost indices have been developed: in part, to fill this potentially vacant box of measuring the household experience of inflation, if we think that the RPI is wrong.

I know that the RSS has been leading on this and has done some very useful work, sometimes against a degree of kickback from some people on the advisory committees. My view is that, given that the RPI has such public confidence, we might be cautious about trying to foist another inflation measure on the public. Maybe to do it backwards, the things that we have learned about the HCI could be used to update and modernise the RPI. We could then present a modernised RPI, but I know that I may be in a minority on that one.

Lord Tugendhat: Mr Briscoe, if I heard you correctly, you said that the purpose is to measure the expenditure of an ordinary or typical family. Can you define what you mean by that? We all read the newspapers about how varied family structures are now in this country. What is the family that you have in mind?

Simon Briscoe: It is not so much the family that I have in mind but the households that the RPI advisory committee had in mind. I have a feeling that it was its report in the 1950s, or the 1960s at any rate, which decided to exclude the top 4%. They looked at the expenditure of people with different incomes and wealth and excluded the top 4% because their expenditure was not typical. They also excluded about 12%, I think it is at the moment, from the bottom. They were the very poorest pensioners at the time, who were living purely on state benefits, on the assumption that their expenditure was also not typical. If I am doing my maths right, just over 80% are the population in the middle, which the RPI is trying to reflect.

Lord Tugendhat: It is your use of the word "family" that I am having difficulty with. What is a family?

Simon Briscoe: I should probably have used the word "household". That can be a one-person household or a family that is a couple with children.

Lord Tugendhat: But the expenditure patterns of a one-person household would be very different from those of a four-person household.

Simon Briscoe: Exactly, but as I understand it the statisticians conduct a survey that requires people to fill in a diary, in effect, of what they buy and spend. They then look at the income distribution on that, exclude the people from the top and bottom, and then take the rest. It is just an attempt to exclude the outliers. That might be a better way of putting it.

Lord Tugendhat: I understand that. My worry is that at the time when you said this was devised, there was perhaps greater uniformity in the structure of households than is the case now, not only because family structures are rather more fluid and varied but because more older people are living alone. I am worried that we are identifying something that is less typical of the nation than it was when it was put together.

Q25 **Lord Lamont of Lerwick:** Picking up Lord Tugendhat's point, in January

2018 there was a court case, in which I think Mr Lloyd gave evidence, between British Telecommunications and BT’s pension trustees. A paper submitted later by Tony Cox, a member of the RPI CPI User Group, said in relation to the judgment that it was “impossible to say” whether RPI was wrong and CPI was right.

He also said, “Any index can do no more than provide an estimate of the increase in cost of living as experienced by any given household, or even type of household. Thus, it is impossible to say that RPI is wrong and CPI is right, or even that RPI is more wrong (or right) than CPI, as an estimate of the likely increase in cost of living for pensioners”. He was saying that in certain respects the CPI might be said to underestimate inflation and in certain other respects the RPI might be said to overestimate it. Do any of you, particularly perhaps Mr Lloyd, have sympathy with his view?

David Lloyd: I can definitely let that one through to the keeper, because it was not actually me. Was it one of my colleagues here?

Simon Briscoe: I was on the BT case, yes. I think the fundamental point that Mr Cox was making is that measuring consumer inflation is what would be called a latent variable. It is not something that we know. In contrast, arguably, there is a specific number that we can try to home in on for the number of crimes committed or the population of the country, but it is widely accepted that there is no right number for inflation.

It therefore upset me when, in the evidence that you heard last week, there was a presumption by many of the witnesses that the CPI was the right number and that any extent to which the RPI digressed from it was in some way an error in the RPI. To that extent, I agree with Mr Cox: we do not know what inflation is or what the right rate is. It is therefore difficult to measure.

The fundamental difference is that RPI was designed in the post-war period to be a measure of some concept of a normal household and to compensate it for price increases. The CPI is much more recent. It came along about 20 years ago out of the European Union and the desire to have a measure of macroeconomic inflation as part of the monetary union process.

Therefore, to my mind, they are measuring totally different things, and for a totally rational reason: the CPI has one history, the RPI has another. They count different things, they give different answers. It is no surprise to me. The ONS will often say this, but then again you often get evidence sessions or utterings like last week’s where that difference in history and purpose is somehow brushed over.

Dr Geoff Tily: I think Mr Cox was making an important point. As Simon says, the CPI is not sacrosanct; it can also be wrong.

There is a need for a cost of living measure, and I would not be so nihilistic about not being able to get to any particular answer. This goes back to the question of whether there is a way to get a fundamental solution. We think there should be a way to define the sort of index that we want if we agree that we want something that we should use for uprating and we think there should be a uniform measure that everybody trusts and that is used in a fair way for uprating.

There is a way to go about defining the formula. In my paper I mention the work of Mark Courtney, who has made some very important contributions to this discussion. He provides a way that would enable the statisticians to investigate, item by item, which formulae you might use to come up with a more considered, fuller answer. There is a way to do it.

The Chairman: Just taking Mr Briscoe's point, I think everybody accepts that there is a difference of about 0.7% between RPI and CPI, so do you think it is right that your members should be charged RPI on their rail fare increases?

Dr Geoff Tily: I think our membership should be charged fairly.

The Chairman: It would be surprising if they thought something different. That was not what I asked.

Dr Geoff Tily: At the moment they pay RPI and they receive CPI, which is clearly profoundly wrong.

The Chairman: So which should it be then?

Dr Geoff Tily: I think it should be an uprating measure that accurately reflects households' experience of inflation, taken in some general way. It is possible to do that.

The Chairman: Which is what?

Dr Geoff Tily: It is neither the RPI nor the CPI at the moment, but it might be possible to make changes to the RPI so that it becomes an appropriate measure for uprating.

The Chairman: Do you agree with that, Mr Briscoe?

Simon Briscoe: I think that broadly speaking I do. This issue has loosely become something called arbitrage, where you get an organisation paying with one and giving with the other. That has done a lot to damage the reputation and the use of statistics in public policy generally, so it is a very bad thing from that point of view.

As for me and which index I think is best, if we had an RPI with minor repairs so that it got back to being closer to what I think would be the true measure on the RPI definition, given the choice between CPI, RPI and, in years to come, the HCI, it would be a matter of choosing which one is best for each purpose.

That said, there has to be some test of reasonableness balanced against that. If one organisation is very deliberately paying out with one and recouping with the other, people will just think it is unreasonable, regardless of which rate it is.

The Chairman: Lord Lamont, have you finished your question?

Lord Lamont of Lerwick: No, I have not. One of the things that we talked about a lot last time was the stock of index-linked gilts. There are gilts that will be outstanding in 2068—in 50 years' time. Do you think it is sustainable, therefore, to continue using the RPI for the next 50 years?

Simon Briscoe: From my point of view, absolutely, with some minor adjustments to the way clothing prices are collected. That is all that needs to change as a matter of urgency.

David Lloyd: Investors have purchased these gilts on the fair and reasonable understanding that they will receive RPI.

Lord Lamont of Lerwick: Leaving aside what Mr Briscoe said, which I have a lot of sympathy for, conceptually could we not move to gilts that were indexed either to the CPI or the CPIH?

David Lloyd: Of course you could, but whether you chose to do so from this point forward or to recalibrate—

Lord Lamont of Lerwick: I meant from this point forward.

David Lloyd: From this point forward, absolutely. In the discussions that I had prior to this session, there was a very strong feeling that such a development—producing a CPI linker market—is the foundation stone for a more general move from RPI to CPI.

Lord Lamont of Lerwick: Would there be any point in the Government signalling more precisely their intention for the future between the two indices there?

David Lloyd: As long as that signalling made it clear that the existing stock of gilts was not going to change from RPI to CPI, because that would be calamitous—I have some numbers, it would be helpful in the extreme for such a communiqué to be made.

The Chairman: You said calamitous.

David Lloyd: I could give you some numbers if you would like.

The Chairman: Yes.

David Lloyd: The current market value of the index-linked market as of last night was £659 billion. If, tomorrow morning, it was announced that from this point forward linkers would shift from RPI to CPI, and assuming a wedge of 1%, the value of the market would drop in, I guess, about half an hour by £150 billion. That is quite a sobering number.

Q26 **Lord Turnbull:** Simon Briscoe, you made a point about mending. I have an ONS chart here which shows that in the early 2000s, which was when CPI started to be used and the announcement was made that the monetary target would be CPI, the formula effect was 0.5 or maybe 0.6. It then jumped in quite a precipitous way, and it is now 0.9 to 1. It is this jump that has alarmed people.

If you made your mending of the treatment of clothes, would you get back to the kind of formula effect that we saw in the early 2000s, or is there still work to do to produce convergence between these indices?

Simon Briscoe: If I were in the ONS and tasked with this, I would not start on the piece of work by trying to deliver any particular value for either of the indices. What is very clear is that roughly 3% of the RPI is clothing for men and women. This is where the problem is. There are a couple of dozen categories of clothing, one of which is strappy tops. It is the collection of the raw prices that went adrift when it was changed in 2010.

I would like the UKSA, as a result of the mess we are in, to have a fundamental review of the prices that it collects—they are the same raw prices that are used for CPI and RPI—get them fit for purpose and introduce them over a period of years. Work your way through the index item by item as you go along. That has not answered your question. I am pretty confident that by the end of that process the formula gap would diminish, because there would be better prices.

One thing I would agree with Mr Athow on in his evidence last week is that in any case we are on a path now where much of the shopping that we do is simply scanned at electronic points of sale equipment. Other countries—the Netherlands is leading it in Europe—are now using data where you get both the price and the quantity of the product, which in a sense takes away the need for the reliance on the Carli, the Jevons and other formulae. So if we imagine that 10 or 20 years ahead we are using EPOS data, there will in extremis be no formula effect because we will be using actual prices and actual quantities.

Lord Turnbull: What we got from them was a doctrine of pure defeatism: because there are so many problems coming down the line, we cannot tackle the formula effect because there will only be another problem later on.

I would argue that you need a programme of continuous modernisation; you deal with one problem as it arises, then market structures change. Pricing policies change, too, and you may have another policy to deal with later on. That seems to be the philosophy that they should adopt.

Simon Briscoe: You are absolutely right. After the mess of 2010, a number of research papers were produced by the ONS—not that I have seen them all, because a lot of them are private—looking at how to resolve quickly the problem that it had created.

As I see it, those research papers and the programme were effectively dumped when the Johnson review came along. I do not know what drove the conclusions of the Johnson review, but the system, the Treasury and the ONS, got behind that review. All that previous research about evolving the collection of prices was dumped, and instead we got this mantra that the RPI has to be killed off.

Lord Turnbull: This is a question for Mr Lloyd. What are the conditions under which the formula can be changed for gilt holders? There seem to be two propositions. One is that provided whatever is adopted is recognised as a mainstream measure of inflation, the Chancellor is entitled to do it. Another set of conditions ask whether there is a detriment to gilts holders. Given that they have pocketed a huge benefit on the upside, I would have thought it reasonable to say that it is about the format.

Are you saying that so long as this is a justifiable measure under good statistical practice, the Government should be entitled to change it and that it should not be limited to things that leave indexed gilts holders the same or better off?

David Lloyd: I am not sure that I totally understand your question. The process discussed last week involving the establishment of whether something is fundamental and detrimental—and if it is, then going to the Chancellor of the Exchequer—is almost academic, because the market will quickly calibrate what inflation indexing will be applied to the gilt market and price it accordingly very quickly. If the direction of travel is about reducing RPI, whether specifically to address the formula effect or the wedge between CPI and RPI, if that is deemed to be a problem the market will pick up very quickly.

As I am sure you all know, one pricing is just the net present value of the cash flows coming your way. So whether or not we go through the process of it being material and detrimental, the gilt market will react to any change in inflation indexation outside that process anyway.

The Chairman: Lord Burns, you have been very patient. Do you still want to come in?

Lord Burns: I am happy to wait my turn.

Baroness Harding of Winscombe: I should first declare my interest in having CPI pensions, like everyone else, but also as a non-executive director at the Court of the Bank of England.

If I may, I will ask one follow-up question to the question that we just had and then I will ask a bigger question. I am intrigued by the idea that we might have to wait a decade to get volumes from EPOS systems when retailer EPOS systems have been the norm for at least 20 years. Why is it taking so long to evolve when the data is there?

Simon Briscoe: You would have to ask the ONS that. I have some personal experience of this. I was involved in a small company five or six years ago and we approached some of the companies that aggregate and anonymize the data from the supermarkets. We were able to get test files of data after a couple of emails and a meeting and then signed a sort of NDA. Other countries are doing this as well, but quite why the ONS is not bold, brave or strong enough to go out and do it, I do not know. The Digital Economy Act passed last year supposedly gives the ONS a little more strength, so I hope that it will do it. It has set up a data science team, and I do not see why it cannot start feeding this into the RPI, bit by bit, in the next year or two.

Dr Geoff Tily: I am a member of the stakeholder advisory panel. At the last meeting of that panel, we saw some EPOS-type data and some results constructed on the basis of that data. I am not sure whether I am at liberty to discuss that, given that it was in the committee, but I am sure that you could ask the ONS for its results.

More generally, admin data seems to be an incredibly slow burner. For many years, the use of admin data has pointed a way to resolving a lot of the difficulties with statistical questions, but it has not as yet. I do not know whether that reflects technology having finally just caught up, but it has been slow across the statistics piece.

Q27 **Baroness Harding of Winscombe:** To bring you back up to a higher level, at the risk of putting words into your mouths you have each said separately and in different ways that we should be vindicating the public's confidence in RPI by renewing it or removing some of the errors, small or large. I would be really interested to hear what specific improvement you would like to see. If we went along the path of incremental improvement of RPI, what would you change?

Dr Geoff Tily: I would like to see a formal, considered approach to the formula effect across all items, as I discussed earlier with Mark Courtney. Many of the issues are being discussed under the framework for the household costs index, which could also be brought back to the RPI and taken forward within its framework if that was regarded as preferable.

It is also important to assert that uprating should be done in a way that is designed to measure the cost of living as it faces households. If pensions are uprated, that should also be one of the goals. There are also political and statistical dimensions, both of which would have to be addressed to get a solution that commanded public confidence.

David Lloyd: From my point of view, not being a statistician, we need to get out of the bind that we seem to be in at the moment. There is a commitment to produce RPI but not an undertaking to continually address its suitability and relevance beyond routine maintenance, which I think was mentioned last week. That strikes me as untenable, bearing in mind the timeframes we are dealing with. I think the word "untenable" was also used last week.

Simon Briscoe: We need the UKSA to set out a work plan for developing the new kid on the block—the household costs index—and, alongside that, a work plan for renewing and reviewing what is in the CPI and the RPI.

The problem of the last decade or so is that we have not really had a plan or useful governance or strong management to deal with that. The whole thing has rather drifted, and I do not think that users know what is coming next.

Very simply, though, given the annual changes that take place in the composition of the basket during every January and February, I contend that it would be possible to start making small changes to the clothing component. As I say, that is just 3% of the total, and strappy tops are one-thirtieth of 1%. Why not set the ambition of getting rid of strappy tops or replacing the data for next January? Little steps like that could be made, along with the many other small changes that are made every year as part of upkeep.

Baroness Harding of Winscombe: And that would be sufficient, would it?

Simon Briscoe: The strappy tops issue would not solve it in itself, but clothing was the big thing that blew up in 2010. There are lots of other areas in these consumer inflation indices, as with all statistics, where you have to have a group of people with a suitable governance structure looking at what needs to be changed and updated. They would deal with EPOS data and everything else. We need a five or 10-year plan of what will be done, have that in the public domain and make sure that it is done openly and transparently, which it has not been in the past.

Baroness Harding of Winscombe: Would you do that at the same time as creating a third index?

Simon Briscoe: For the third index, the household costs index, I think initial figures were published last December, which was a valuable development. The ONS often talks about the three families of price indices—the CPI, the RPI and the household costs index—but it has rather concealed what it is going to do with them.

HCI is clearly under development; I do not know what the next steps for development are. The CPI is assumed to be perfect, so I guess that no one will do anything to it, even though one can find mistakes with it. On the RPI, the ONS just says that it is broken and needs to be dispatched.

These indices all use the same core prices and are based on the same fundamental information, so the three of them need to move forward together.

Dr Geoff Tily: If you wanted to build up a new measure such as the household costs index, which has a reputable approach, the need is to address the formula within that index. At the moment, the household costs index just does what the CPI does. The RSS may have promoted that way so that it could get some traction, but as far as I am concerned it would not be acceptable unless the formula was done properly within that framework.

Lord Layard: I am trying to understand the position of all three of you. We have the CPI being used for state pensions and benefits and the RPI being used for the majority of private pensions. Are you saying that the RPI should actually be used for state pensions and benefits because you think it is better, or are you working on the basis that the legacy is something that we cannot undo?

David Lloyd: More the latter than the former. I do not think anybody is laying claim to the belief that any of the inflation measures is perfect. Everybody in this room, and everybody in the country, has their own personal inflation rate depending on what they buy and who they buy it from. We all know that. This is the primary issue, from my perspective at least.

I certainly do not propose that we row back to the RPI on state pensions. As you know, a good many private sector DB pension schemes have moved to CPI, to the extent that they can given the indexation of future entitlements. But many of them are not allowed by their own rules to move to CPI for pensions in payment. Needless to say, the issue there is making sure that the assets backing a pension fund's ability to pay pensions are using the same inflation measure as the pensions in payment. The pension fund would otherwise be put in an obviously invidious position. It does not much matter, from that theoretical perspective, whether both sides use CPI, RPI or household. But from a practical perspective, many of these pension funds are simply not allowed to move pensions in payment from RPI to CPI.

Lord Layard: But suppose that RPI became calculated in the same way as CPI. Would they not then be covered?

David Lloyd: As long as both sides of the balance sheet are using the same thing, absolutely.

Lord Layard: The other two of you almost seem to be championing RPI versus CPI.

Dr Geoff Tily: I would answer it differently and go for the former rather than the latter. The RPI is probably a better guide to uprating the cost of living, if that is not too old-fashioned a phrase. That is presumably the goal of uprating anything: that the money the recipients get keeps up with the cost of living.

It is important that these things are uprated by the cost of living, and it is not fair that the state pension or public sector pensions are uprated by the CPI rather than the RPI when certain private sector pensions are uprated by the RPI. They should be uprated by the most appropriate measure, which in a way means that there are no super-quick fixes. I keep coming back to that.

On individual pensions, there has to be dialogue between the firms, the trustees and the recipients. There may be horses for courses, but there has to be some sort of view that we should be uprating by the cost of living and doing that fairly across as much of the economy as we can.

Q28 **Lord Darling of Roulanish:** From what you understand, in what way will the HCI differ from the RPI, and is the intention to have an RPI and a CPI as well as an HCI and a CPIH? If there is a basketful of indices, we will all lose any confidence, because no one will know which one we can possibly rely on.

Dr Geoff Tily: I guess the bottom line is that that is why I prefer to renew the RPI, if possible.

Lord Darling of Roulanish: Do you have any idea what the HCI would do that differs from the previous indices?

Dr Geoff Tily: The main difference between HCI and RPI is its approach to the formula, because it takes the CPI approach to it. If you did the HCI on the basis of the formulae that the RPI used, it would probably be quite similar to RPI it is now. That suggests to me that renewing the RPI is a more straightforward option, given the wider public confidence in it.

Lord Darling of Roulanish: You could call the HCI the RPI. So is it really the formula that we should be looking at?

Dr Geoff Tily: Yes, that is my basic contribution.

Simon Briscoe: I am not an expert on the HCI, but my understanding is that it is quite different in a number of respects from the CPI and the RPI. One difference is that it gives each household an equal weight; in other words, it gets round one of the problems that we were talking about, which is that if you imagine an economy with a very wealthy family and a very poor one, the rate will always be distorted towards the high-spending one. It also includes, or is also planned to include, a number of other things that are costs, such as insurance and some of the other costs we have that are not currently included in the CPI or the RPI, for one reason or another. It is meant to reflect it better.

The Royal Statistical Society has been key in promoting this measure, and I believe that it is a great measure to have. My only concern about it is that it will take a long time to get it up and running, fully developed and trusted. I can see it taking five, 10 or 15 years, because there are theoretical and data issues that need to be dealt with. I do not see it as an immediate replacement for the RPI.

To answer your question about the many measures, if we had an RPI, a CPI and an HCI—all of them as an aggregate measure—and each of those were with and without owner-occupier costs, as I think Lord Lamont mentioned last time, that would be quite a simple framework. It would not be beyond the wit of users to decide which measure they wanted.

Q29 **Lord Kerr of Kinlochard:** Mr Briscoe, if the one thing we cannot do is nothing, as I think we all agree, and if RPI is to survive, as you believe it should, it clearly needs to be reformed and adjusted. How far can we go legally with market constraints? There are half-hour giant moves in the market. Obviously we could remove our tops, although that might be a rather rash and daring thing to do, or get rid of the Carli formula. But how far can we go? Could we, for example, reform RPI so that it looked extraordinarily like CPIH? Are there legal constraints that would prevent us doing that or market constraints that would come and bite us, in the way that Mr Lloyd was terrifying us with earlier?

Simon Briscoe: All those things could be done to RPI, but frankly I just do not see the point. RPI has evolved over 60 years. It is what it is, for very good reasons.

Lord Kerr of Kinlochard: So what reforms would you actually make?

Simon Briscoe: You are right: everybody thinks that something should happen, except, it seems, the ONS and the UKSA, which just want it left. Everybody else who is involved in this thinks that something should happen.

The very simple thing to do is to address the issue with the collection of the clothing prices. That could be done very easily over a period of two or three years, and in my view it would not trigger any of the concerns of the Bank of England or the Treasury. If you start taking away the Carli formula or start making the index look fundamentally different or make it look as though it is behaving fundamentally differently, it ceases to be the RPI. I do not think you would get statistical user community support for that, and it would cause the Bank and the Treasury to trigger their clauses.

Lord Kerr of Kinlochard: It is a spectrum, and there is no point doing that.

Simon Briscoe: Absolutely.

David Lloyd: The effect on the gilt market would be significant and immediate, because the gilt market would see the direction of travel and assume that this process, be it a short one or a more protracted one, would result in RPI looking a lot more like CPI—that presumably being the intention of the exercise—and the gilt market would reprice accordingly with the sort of numbers that I mentioned earlier.

The Chairman: On your numbers, what would the saving be to the taxpayer?

David Lloyd: Much the same as was mentioned last week.

The Chairman: So £1 billion.

David Lloyd: It is a 1% saving per year on about £400 billion of actual nominal amounts, so it would be £3 billion to £4 billion a year.

The Chairman: A £3 billion to £4 billion a year saving to the taxpayer.

David Lloyd: Yes.

The Chairman: I hope the Chancellor is not listening.

Q30 **Lord Burns:** We keep dancing around the whole question of the formula effect and the extent to which the different methods that are used with the indices are different. They are producing this result whereby, although the amount varies, there is a difference in that the RPI turns out to be higher than the CPI because of the formula and the weighting system.

Why do you think the RPI is a better index of the cost of living? I understand that it is giving a higher reading, which, from the point of view of wage negotiations et cetera, is very pleasant, but what is the fundamental reason why this is a better measure of the cost of living than the CPI? What is it about the formula that is more appropriate?

Dr Geoff Tily: Because the formula debate has been about whether the Carli overstates inflation.

Lord Burns: Yes.

Dr Geoff Tily: There has been no similar debate on whether the Jevons understates inflation basically ever since the preoccupation has been with the upward bias of the Carli. We know full well from the fact of the clothing change that, ahead of 2010, it was the downward bias of the Jevons that was causing the problem, not the upward bias of the Carli. People have assessed the comparison between the UK inflation of clothing with the European inflation of clothing, and ahead of 2010 the RPI was closer to the European measure for clothing than the CPI, which was much lower.

There is plenty of evidence that the CPI comes in lower. There is also a theoretical rationale that the CPI might come in lower. The difficulty is that it has not been properly assessed. It seems to me that we are presented now with an opportunity to assess it properly. It has been 20 years or so since Boskin, and in the intervening period we have learned quite a lot about what these things do, many of them surprising at the time.

We are now in a position to review all this evidence and to take a proper, considered view on the formulae, maybe not for the harmonised measure, because it has European rules in it, but for our own measure for our own domestic and uprating purposes. We can review all the information and therefore do it properly.

Lord Burns: If I am hearing you right, your suspicion is that the RPI probably does overstate the inflation rate, but you think that the CPI understates it.

Dr Geoff Tily: Yes.

Lord Burns: If we were using the same approach towards clothing, you could resolve the clothing issue.

Dr Geoff Tily: It is very much not just about clothing. At the moment, Jevons might give a less bad result for clothing since 2010, but we do not know about the rest of the index. The ONS has tried to say that what has happened to clothing tells us more about the formula effect in general, but it does not. What the formula does for clothing just reflects the problem with clothing. It has not given us any new knowledge about the formula in general. That is what we could and should reinvestigate, in my view.

Lord Burns: The Government are persisting with this, though, because if we are going to have a measure that will last for a minimum of 60 or 70 years from now, if we know that there is this upward bias in the RPI method of calculating things, partly because of the asymmetry that deals with the declines and the increases in prices, does it not also mean that this issue has to be addressed at some stage?

Maybe they have been overinterested in the CPI, but can we really continue for quite so long with something with which so much is involved, such as gilts and the uprating systems, if we believe that there is an upward bias in this index?

David Lloyd: I am still of the view—unsurprisingly, because I said it only half an hour ago—that the situation that we are in is untenable. I would be keen to see a review of the RPI so long as it is not conditioned by the presupposition that CPI is right.

Lord Burns: Okay.

David Lloyd: If the collection or the recording of price behaviour in RPI has certain known problems with strappy tops et cetera, deal with it and come up with a better measure, but, as I say, do not condition that piece of work by a presupposition that CPI is right.

Lord Burns: I understand that, but my understanding is that it is not that the prices are necessarily being measured in a different way—we are using the same raw data—it is about how we combine these prices together in an index. One uses some geometric weighting and one uses simple arithmetic weightings, and this produces a problem.

I am pressing the fact that you wish to continue with the RPI. I understand that, and I must say that I was as appalled as everyone else that we have an index that continues in place, that no corrections are made to it and that there is no willingness to maintain it, but I am pressing whether or not there is still an underlying problem with the way this is done. I understand that it has been done for 60 years like that, but there seems to be quite a body of evidence that demonstrates that this is producing, on average, an over-recording of the inflation rate and of what it is trying to do.

Simon Briscoe: As I said before, inflation is a latent variable, so you have to define the target that you want and then you have to set about measuring it accurately. I could present lots of evidence to you that the CPI is underestimating the rate of inflation.

Lord Burns: Okay. Let us accept that, but that does not mean that the RPI is not overestimated.

Simon Briscoe: It is not for me to determine this. What I think we should expect from the UK Statistics Authority, which was set up to be a body independent from the Cabinet Office and from the Treasury, is that it gives impartial advice and tries to give us statistics that are fit for purpose.

The problem is that a paper that it produced back in March, which led to the meeting of the Royal Statistical Society last week and to the renewed interest in this topic, was a very one-sided piece of work. It did not present things honestly. I wish that somehow we could have an honest debate about the pros and cons. There is a balance to be struck.

Lord Burns: Maybe it is not an issue about pros and cons. Maybe, I suggest, it is about saying that if we are going to keep this index—we accept your point that it needs to be properly maintained and that it must be reviewed for the extent to which there are known biases in it—this should not just be an issue of investigating whether we are collecting prices correctly; it should also include whether there is any reason why some of the weighting system should be changed to correct for the known bias in the persistent over-recording of inflation. Would you be happy to go along with that and to include that in the investigation? That is what I am getting at.

Simon Briscoe: I think I said in response to Baroness Harding that I would like the UKSA to embark on a review of the three families of indices and set out a five-year or 10-year work programme to choose the appropriate formula for different areas of the index. That would ensure that the collection of raw prices is fit for purpose. The UKSA should pursue it that way. That is what ought to happen.

There is evidence that in many cases the RPI measures inflation more accurately. I could point you to work done by the Joseph Rowntree Foundation or academics at Loughborough University showing that more often than not the RPI is much closer than the CPI. For 20 years until 2010, the CPI was woefully wrong.

Lord Burns: I am trying to ignore for the moment the CPI and the issue about the differences. I am trying to press on the question whether, if we are to keep the CPI and say that we want an active programme of improvement and maintenance on it, it should also include the weighting issue as well or just be a matter of the price collection.

Simon Briscoe: By the weighting, do you mean excluding the top 4%?

Lord Burns: No, I mean the whole question of arithmetic and geometric measures.

Simon Briscoe: If within the 3% of the index that is men's and women's clothing there are let us say 30 different product categories, that is far too many. Most other countries have far fewer and just deal with simple items of clothing. Some of them could be disposed of. If in one or two cases it can be shown that a formula other than Carli is better, so be it. I do not think it is necessary—it would be the wrong conclusion—but yes, why not? A fundamental review would be a good thing to do.

The Chairman: You made some quite strong charges there about not presenting things honestly. What do you think the motivation is?

Simon Briscoe: Of the ONS in that paper, back in March? I do not know but having watched the evolution—

The Chairman: I thought it was the UKSA that you were criticising by saying that it was not being honest.

Simon Briscoe: The ONS is 99.5% of the UKSA, so essentially—

The Chairman: They are all in it together.

Simon Briscoe: My apologies, but there is the UKSA board, and the vast bulk of its staff and expenditure is in the ONS, so in a sense it is one and the same thing.

Having followed the development of official statistics over the last 30 years, we have edged to a place where we have removed the employment figures from the Department for Employment and Learning and removed the economy figures from the Treasury. We created an office that was independent and had the statistics Act in 2007, which was meant to enshrine its independence. Yet I do not feel that the statistics office is as independent as it should be, and I cannot explain that.

The Chairman: Independent from what?

Simon Briscoe: Well, other pressures in the system. The two obvious pressures are the Bank of England and the Treasury.

Lord Darling of Roulanish: To pursue this, are you saying that somebody in the Treasury or the Bank of England has been seeking to nobble the ONS or the UKSA?

Simon Briscoe: Nobble is your word. You can draw your own conclusion about whether it is the right word. I will give a couple of examples. We have spoken before about the RPI advisory committee, which I think produced 15 reports to Parliament between 1960 and its last one in the mid-1990s. On that committee, I believe, there were 21 representatives, of whom four were from the then ONS, the Bank and the Treasury. Four out of 21 were from those three bodies. There was the Consumer Prices Advisory Committee, which came in during 2009, oversaw that clothing change and was then disbanded.

If you look at the minutes of the panels we have now, which Geoff Tily is a member of, the majority of the people attending are from the ONS, the Treasury and the Bank. We also have a separate group, the tripartite group, which is fairly secretive and is where the Treasury, the Bank and the ONS meet to discuss these things. I am not sure whether I am allowed to wave evidence, but I have used freedom of information to get hold of its minutes. As the Committee can see, they are often quite heavily redacted, so I cannot tell you exactly what it discussed there.

The Chairman: It is almost a blank piece of paper.

Simon Briscoe: I am happy to leave it behind with you or send you a link. The point is that this is the most important statistic: the one that affects every household in the country through our legal system. This policy ought to be done in an open, transparent and honest way. I do not think we are getting that at the moment.

The Chairman: You have not really answered my question about what the motivation might be.

Simon Briscoe: My instinct is that possibly the Treasury or the Bank of England, or both of them, want to get rid of the RPI for some reason. That is the only possible reason I can come up with for the ONS or the UKSA producing such one-sided research as they produced in March.

Lord Lamont of Lerwick: Is what you are suggesting not really groupthink?

Simon Briscoe: Groupthink would be a perfect example, yes. A lot of senior staff at the ONS spent many years working in the Treasury. The Treasury does not like the RPI and has never really liked it since it got the CPI, while the Bank has no time for it. There is a sense of groupthink going on here.

Lord Burns: Does this explain why there is no maintenance and no improvements are being made, and why this is no longer a living index? Is it really in the hope that it will therefore just destroy itself over time and be abandoned?

Simon Briscoe: There was the Johnson review. You had evidence from Mr Johnson. The report's conclusions were essentially that RPI should be left to wither. If I heard him correctly in evidence last week, he said that he realised now that it was not going to. To the extent that he is part of the groupthink—I do not know whether you asked him this last week—perhaps that groupthink is now changing and these relatively simple adjustments could be made to bring the RPI back to life.

The Chairman: Dr Tily, as you are on these bodies you might wish to comment on whether you feel any pressure.

Dr Geoff Tily: The thing I have written down is the Johnson review. I have a sense that the statistical authorities have been holding the line of the Johnson review ever since it was cast in stone.

Regarding the committees, at the first meeting of the new advisory panel arrangement we were presented with a copy of the Johnson review almost as if it was the holy writ and we would be implementing it. You cannot get a selection of people together and expect them necessarily to comply, but there has been that kind of groupthink, if you like.

The momentum behind it has been very much that we are there to implement Johnson. A number of us contested some aspects of Johnson and the panel process works a little. If you look at the minutes in detail you will see some kickback coming through, but by and large—

The Chairman: I thought the minutes had all been blanked out.

Dr Geoff Tily: I think those were the minutes of the tripartite group rather than the advisory panel, which are published on the website. It has been quite hard work to kick back in the panel about the Johnson review line.

Q31 **Baroness Bowles of Berkhamsted:** First, as I was not here last week I will declare the same interest as everybody else: I am affected by these indices.

I think where we have got to is that RPI could be updated. The powers obviously exist within the ONS to undo or redo whatever it has done before. If it had the power before, that power has not gone away, but there is no appetite or incentive to do it, for a variety of reasons. We are left potentially having three indices, although one of them might not be up and running for some time.

Mr Briscoe, you implied that these different indices may well be useful for different purposes. I am not going to dispute that, but is it feasible to envisage some kind of ruling saying, "You've got to always use the same one on both sides of the balance sheet", or perhaps the inputs/outputs, or however it is, so that we do not always charge the worker or the public more and pay out using the lesser one? Would it be feasible to impose some kind of pairing like that?

Simon Briscoe: My instinct is that it would be difficult, but if we imagine that these three families, which the ONS totally supports, existed and were all valued and trusted, it would be for each user to choose the index they thought was best. That would be my starting point.

One would hope that those users would then appreciate that there would be a test of reasonableness, for example, as I said earlier, so that where you were receiving money and paying the same money out somewhere you might well use the same index. There would otherwise be checks and balances in the system, ensuring that changes were made.

All I am really against at the moment is the idea that the CPI should now be used for everything. To me, that is the nth excuse that the dark forces of groupthink that I referred to are using to get rid of the RPI. I could run through various other arguments deployed since 2010, but without doubt the argument in 2017 was that the Treasury is dominant and using CPI, so CPI must be used everywhere, and anyone who is not using it is somehow committing a sin. That is a mistake, because it is just getting rid of RPI by the back door, even though there are clearly cases where RPI, or HCI when it comes, would be more suitable.

David Lloyd: In most cases, people are highly incentivised to use the same measure on both sides. In the case of a pension fund, if you are committed to paying out RPI, you want RPI assets to back it. Similarly, with regulated utilities and annuity providers, if there is a mismatch either way, risk is introduced into your affairs.

While I could not possibly say whether it should be legislated for, or somehow policed, that both sides are used and people do not opportunistically shop between one measure and the other, in most cases people are strongly motivated for prudent risk management to use the same measure on both sides.

Dr Geoff Tily: I do not know whether it could be legislated for or policed, but I know that at the moment it is a complete dog's dinner. It would be very difficult to apply it more unfairly than the way CPI and RPI uprating is done at the moment. The trouble is that the statisticians are putting temptation in the way of politicians here. They should be taking a lead in devising a measure that is appropriate and fit for purpose, and then saying that this is what people should use for uprating. They could give a steer.

The Chairman: That is a good fightback in injury time.

Baroness Bowles of Berkhamsted: You say that it is a complete dog's dinner. Is that across the piece or is it mainly the Government or the Treasury who have used the measures asymmetrically?

Dr Geoff Tily: I was talking mainly about the Government and the Treasury, I have to confess. I know there is some movement in some areas such as regulated utilities, but not in other areas such as rail fares. It seems that the workers' costs are based on RPI.

Baroness Bowles of Berkhamsted: Finally, you can tweak all kinds of things, but can you actually tweak the formula so that you get rid of the bounce effect?

Dr Geoff Tily: The bounce effect is one effect. There may be areas where it is worse than others. That is why you need to go through it item by item. The bounce effect causes problems in one direction. The problem with Jevons is that if the prices get more dispersed through the year, it makes Jevons more problematic in other areas.

My view is that, leaving aside clothing, we genuinely do not know what the overall balance of those two effects is on the inflation indices. The ONS had a decent work programme in place many years ago, which could be taken forward.

The Chairman: I am conscious that we are drawing this session to a close. Baroness Harding, do you want to ask something?

Baroness Harding of Winscombe: Coming back to your point about putting temptation in the way of politicians, I think you are also putting temptation in the way of business men and women. If you have multiple indices, I take the point about risk preference, but that is what an arbitrage does: it looks for a difference in individual measures.

Is that not only what is happening? If you have more than one inflation measure in a country, you will always have that and therefore always have a sense of unfairness. Should we therefore aim to have one, whichever three-letter acronym it is?

Dr Geoff Tily: The old world view in the preamble to the harmonised regulations is that there are important measures of inflation that are used for macroeconomic purposes, and other measures of inflation that are used for cost-of-living purposes. Those are potentially two distinct uses and a valid and useful distinction. You might not have to have loads, but you might need two.

The Chairman: On that note, if no one has any other questions, I thank our witnesses for a very interesting and stimulating session. Who said statistics was a dry subject or an uncontroversial one? Thank you very much indeed. That concludes the session.