Shorten all tip and no iceberg on living costs

Judith Sloan, COMMENT, 12:00AM April 25, 2019
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Yesterday's recorded consumer price index movement for the March quarter of this year was a big fat zero. That's right: according to the Australian Bureau of Statistics, consumer prices on balance were flat.

I wouldn't like my chances of persuading the people walking alongside the river close to my office that this is the case. Doubtless, many of the responses would be unprintable.

According to the figures, vegetables, secondary education and motor vehicles went up in price but automotive fuel and domestic and international holidays went down.

Bear in mind that the CPI doesn't record the cost of living, in part because the CPI is based on an average basket of goods and services, and different groups consume different baskets of goods and services. Consider, for instance, the different consumption patterns of young families compared with retirees.

The key distinction is between the price of unavoidable purchases — electricity, health, education, childcare and the like — and discretionary or luxury purchases.

Adam Creighton, economics editor of The Australian, has discussed this topic over the years. He has noted that "luxuries have fallen in price, while those of many essentials — which tend to make up a bigger share of poorer households' budgets — have increased. Purchases that can be put off have been falling while those that can't, such as university fees (up 53 per cent), have tended to surge. "The entry of China and more recently India into the global economy has slashed the cost of goods that can be traded, while the costs of services ... have risen."

He further illustrates the point by noting that "the price of holidays has grown only half as fast as the CPI since 2007 (overseas stays even more slowly). But electricity has shot up 114 per cent, water bills and gas prices about 90 per cent and medical services 84 per cent."

Do these CPI figures steal Bill Shorten's electioneering thunder, given his ongoing emphasis during the campaign on the cost of living pressures felt by voters and Labor's intention to alleviate them?

The first thing to note is that, in a technical sense, the low inflation figure recorded — only 1.3 per cent over the year ending in the March quarter — will feed into the decision-making of the Fair Work Commission when deciding on the appropriate change to the national minimum wage this year. The increase will apply from July 1. Note also that a number of welfare payments are indexed by the CPI and so only very low increases will apply.

The second issue is that it's not clear how Labor can really address the inflationary pressures in the non-traded goods sectors, which are very often exacerbated by faulty government intervention.

The ongoing increases in cost of childcare, for instance, simply mirror the large increases in government outlays on childcare subsidies. The benefits are essentially captured by the centre owners and not the parents.

There is also a real danger that Shorten's pledges in relation to cancer will just lead to higher incomes for providers, particularly medical imaging firms, radiologists and oncologists.

As for electricity prices, it's a brave call to think Labor's target of 50 per cent renewable energy by 2030 will lead to lower prices given that the increasing penetration of renewables that has already occurred has led to a doubling in the real price of electricity in a decade.

The truth is that Shorten is all tip and no iceberg when it comes to the cost of living. He may be able to identify the problem but he has no sustainable solutions, and some of Labor's policies will make the cost of living pressures even worse. No doubt he will keep talking the talk.