

How Governments can help with the cost of living (and it's not a cost-of-living crisis – it's a real wage / living-standards crisis)

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@grogsgamut

Policy School: How to win policy

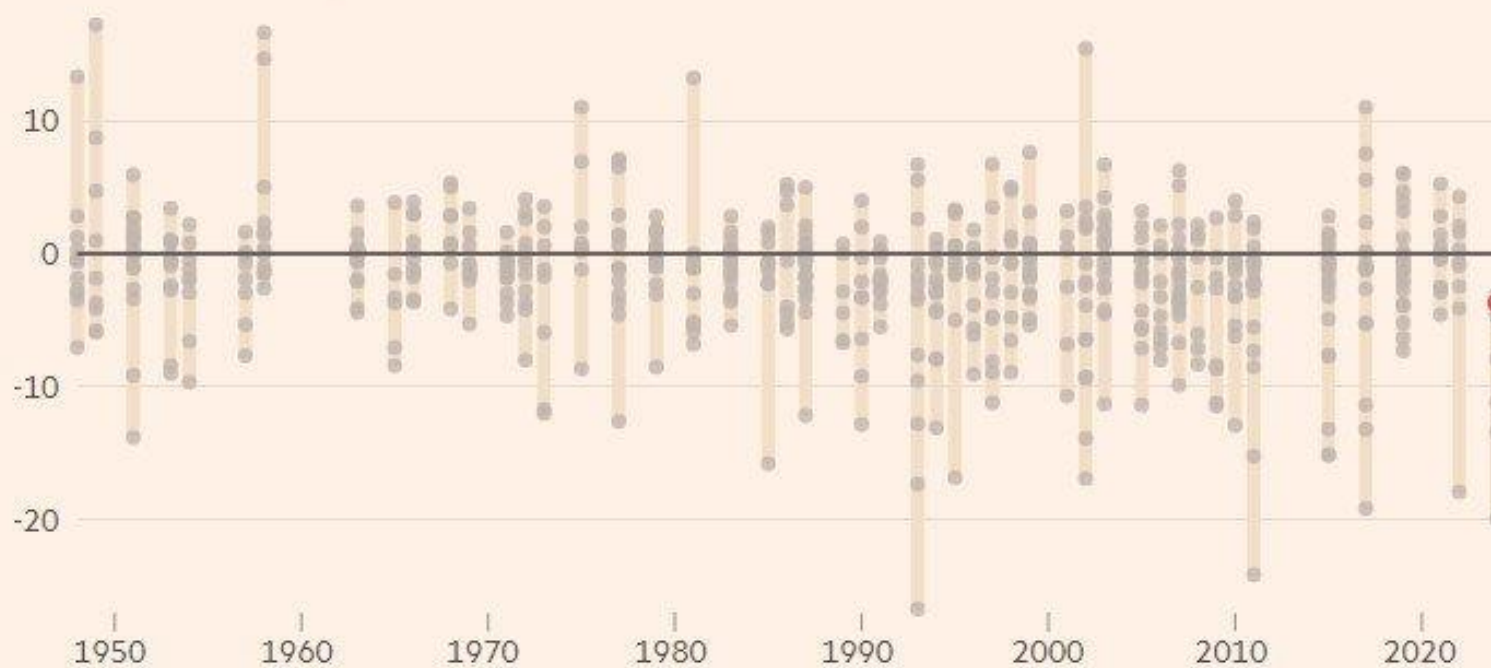
1. Highlight the issue:
 - Information / understanding / facts / explanation
2. Explain the problem:
 - Why does this matter?
 - Who does it matter to?
 - **Who is to blame?**
3. Provide a solution:
 - Policy – Who benefits

The issue: Inflation is a government killer

Every governing party facing election in a developed country this year lost vote share, the first time this has ever happened

Rise/fall in vote share for governing parties in national elections (% pts), by year

● Individual election ● US 2024



Excludes years where fewer than five countries had elections

FT graphic: John Burn-Murdoch / @jburnmurdoch

Sources: [ParlGov](#), FT research

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The issue: Inflation is a government killer

Reason To Not Choose Kamala Harris	All Voters	All Swing Voters	Black Voters	Swing Voters Chose Trump	Latino Voters
<i>Relative Importance Score - Sorted By Color In Threes</i>					
Inflation was too high under the Biden-Harris administration	+24	+24	+27	+23	+25
Too many immigrants illegally crossed the border under the Biden-Harris administration	+23	+23	+19	+22	+19
Kamala Harris is focused more on cultural issues like transgender issues rather than helping the middle class	+17	+25	+15	+28	+9
The debt rose too much under the Biden-Harris administration	+13	+17	+12	+13	+18
Kamala Harris is too similar to Joe Biden	+12	+9	+15	+6	+16
Kamala Harris would let in too many immigrants	+10	+17	+8	+17	+11
Kamala Harris never should have been the Democratic nominee	+9	+7	-1	+11	+5
Democrats did a bad job running the country	+8	+4	-6	+13	-1
Kamala Harris is too liberal	+4	+1	-9	+4	+1
Kamala Harris is too inexperienced	+3	+2	0	+2	0
Democrats are too liberal	+1	-4	-1	-4	0
Kamala Harris wouldn't stand up to America's enemies	0	+4	-1	+7	+3
Job growth was too weak under the Biden-Harris administration	0	+1	+7	0	+3

The issue: A Dangerous Moment

- People are angry, cost of living concerns are top of mind.
- They have good reason to be angry: living standards have been damaged – badly for some.
- Politically, around the world the anger is directed against incumbents (US, Europe, Canada, NZ).
- Unions and others are making demonstrable progress fighting to defend and repair living standards.
- But right-wing populists are channeling that anger into destructive directions.
- Progressive need to respond strongly; not with business as usual

The issue: Inflation is worldwide

US, Canada & Australia inflation by months before & after peak

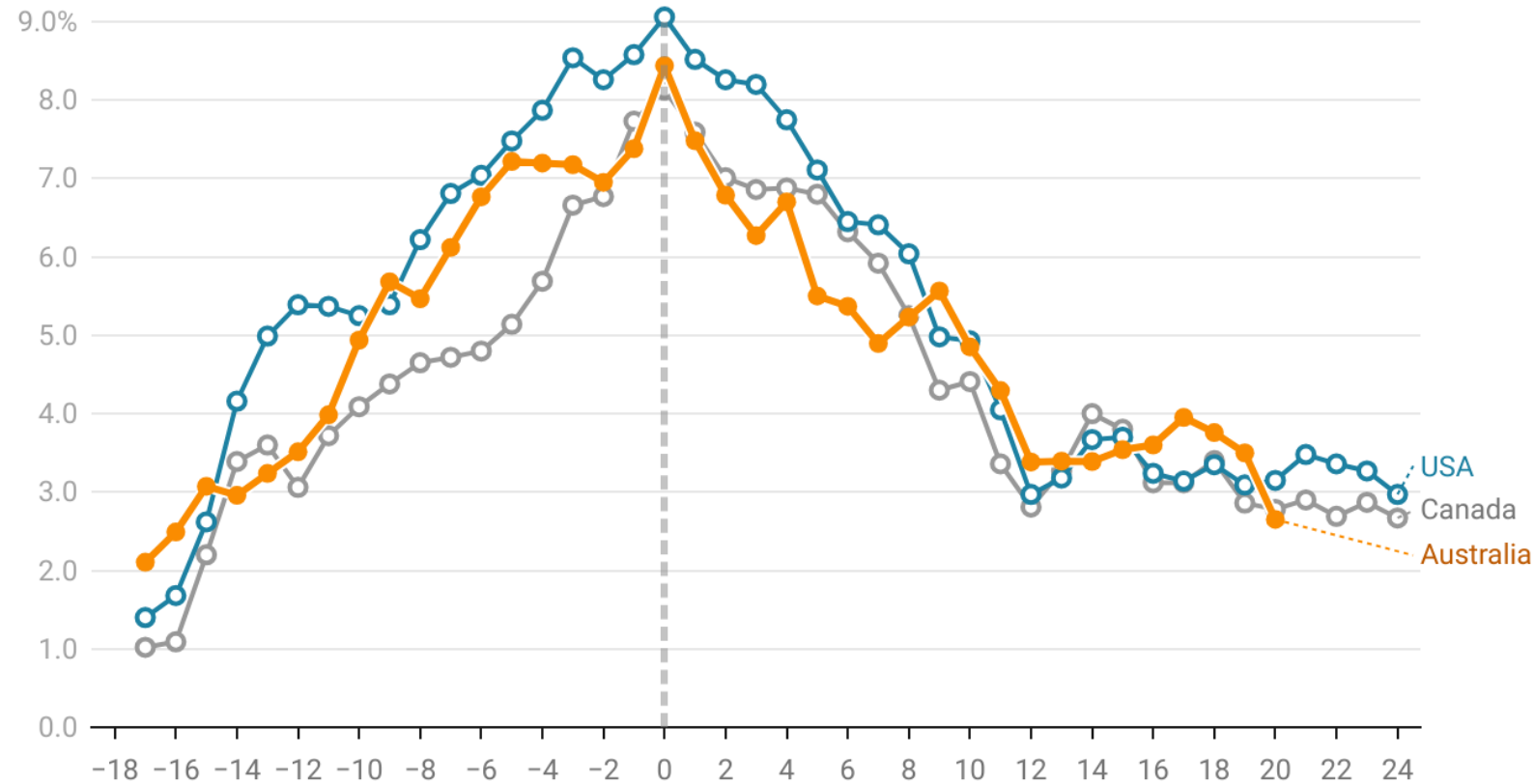
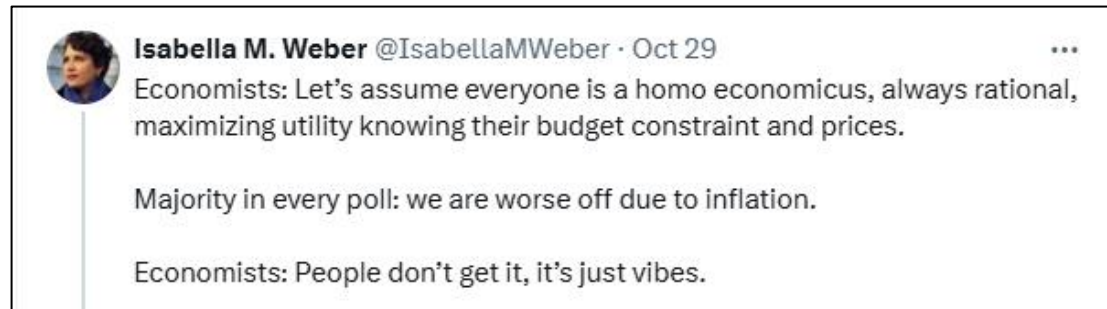


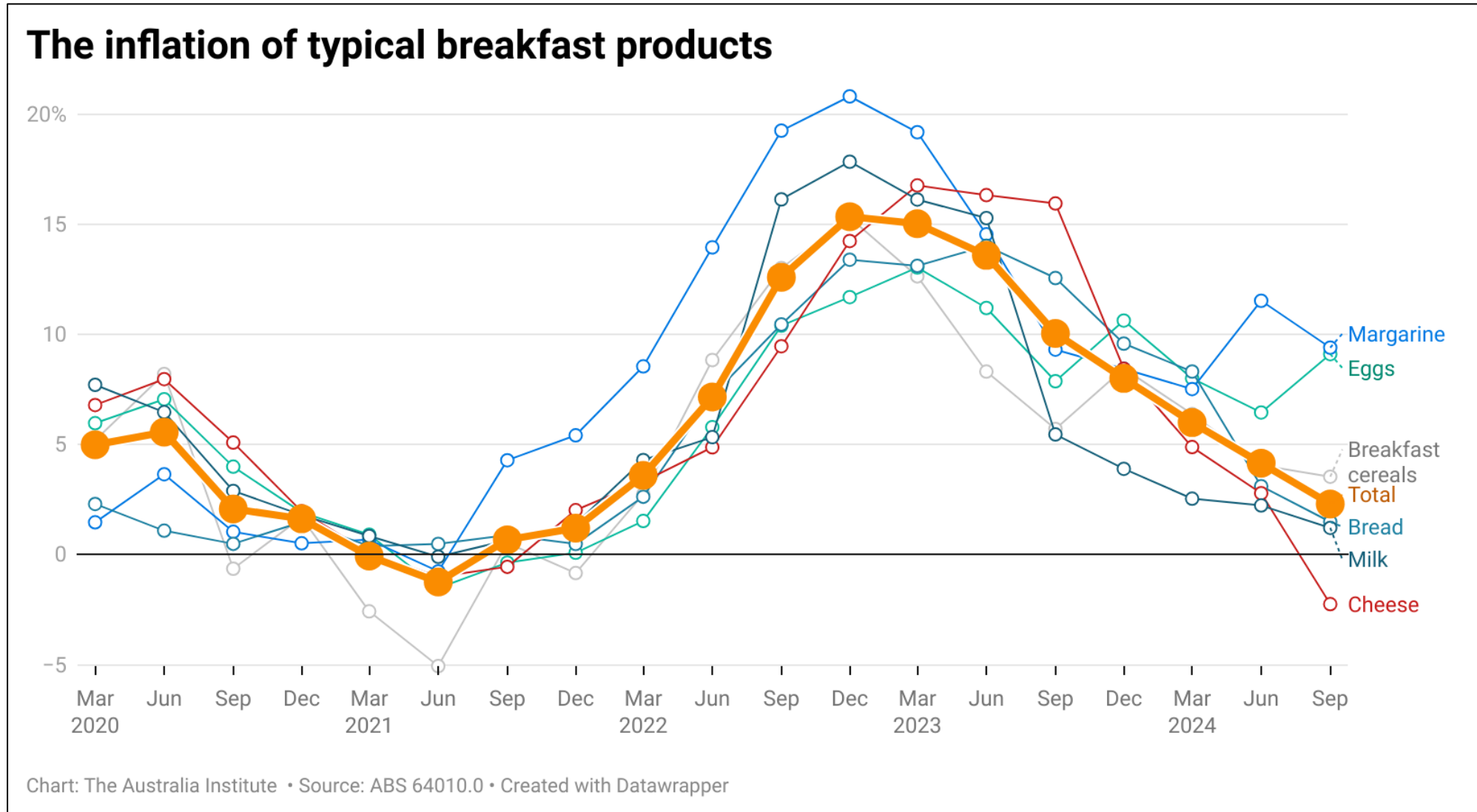
Chart: Centre for Future Work • Source: OECD, ABS • Created with Datawrapper

The Problem

- **NOT** inflation BUT **COST OF LIVING** and **LIVING STANDARDS**
- Inflation is about growth rates of prices.
 - Economists love it, people don't understand it
 - If you talk about inflation falling it makes no sense
 - If you say that inflation is under control because the CPI is now 2.8% people will roll their eyes.
- Speak to people's concerns; don't try to teach them economics.

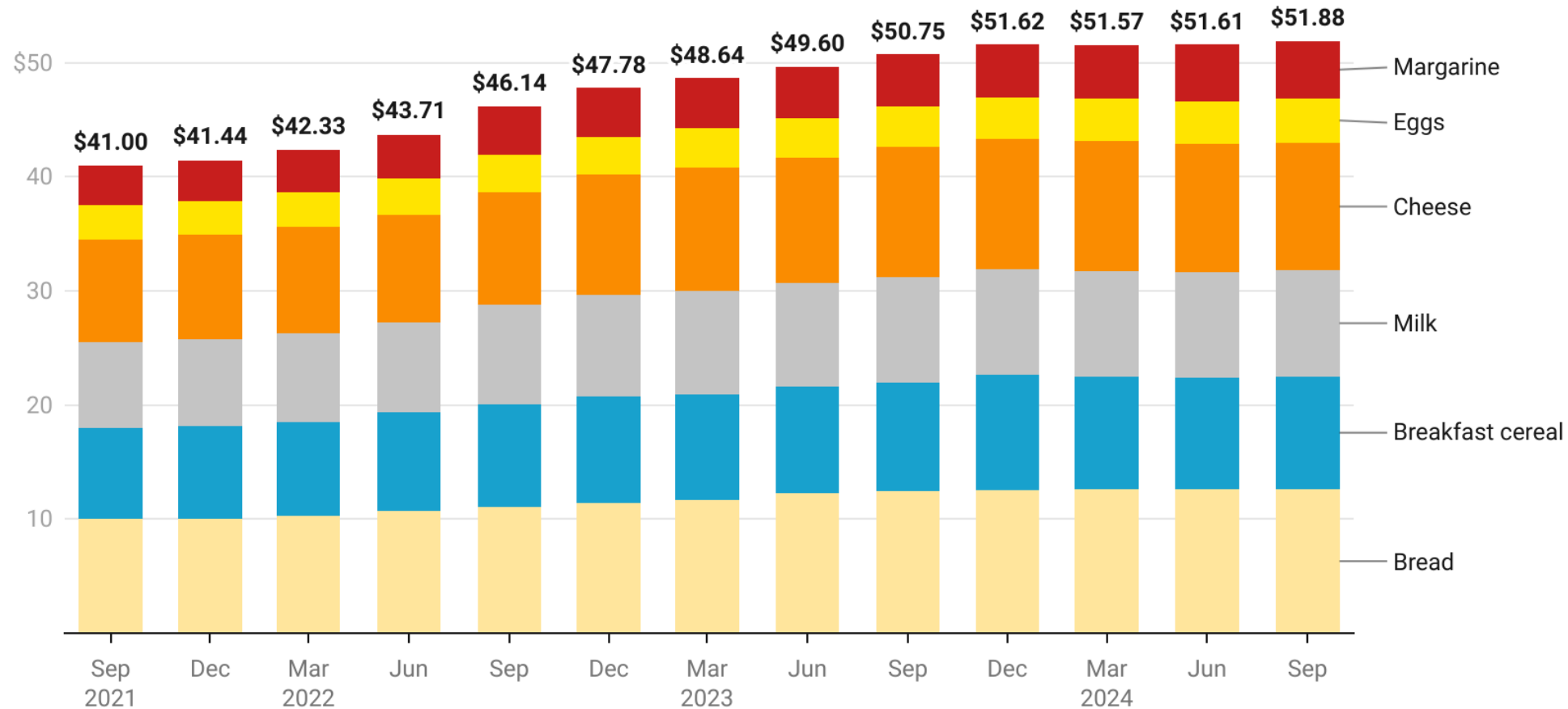


The Problem: Inflation is not Cost of Living



The Problem: Inflation is not Cost of Living

The cost of typical breakfast products



The problem: Not just costs – living standards are also about wages



The problem: Not just costs – living standards are also about wages...and rates

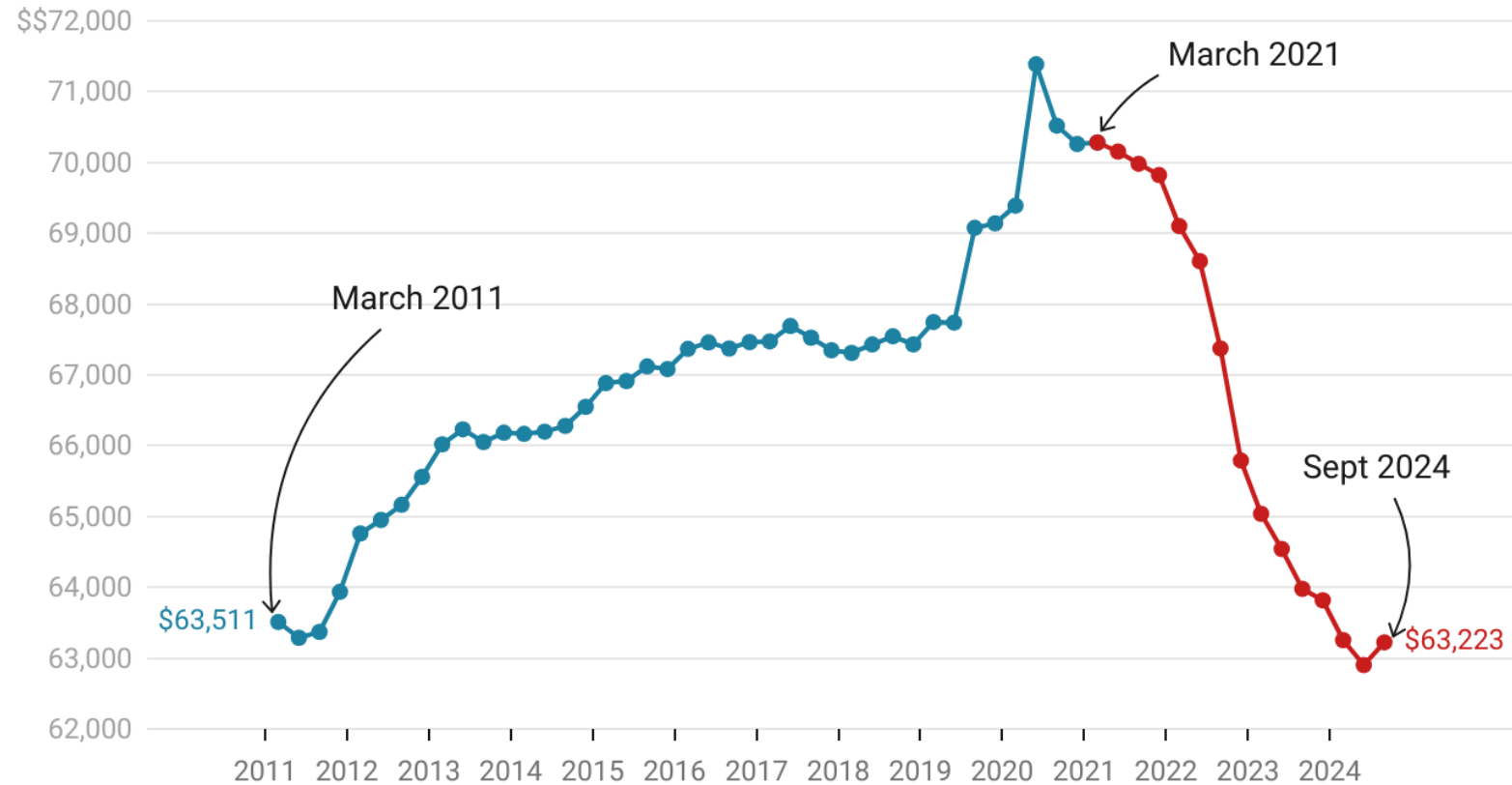


The problem – living standards

Falling living standards means your wage buys less

The rise and fall of real after tax wages - March 2021 dollars

Based on the before-tax income of \$90,000 in March 2021



Decline by the employee cost of living index and the wage price index

Chart: The Australia Institute • Created with Datawrapper

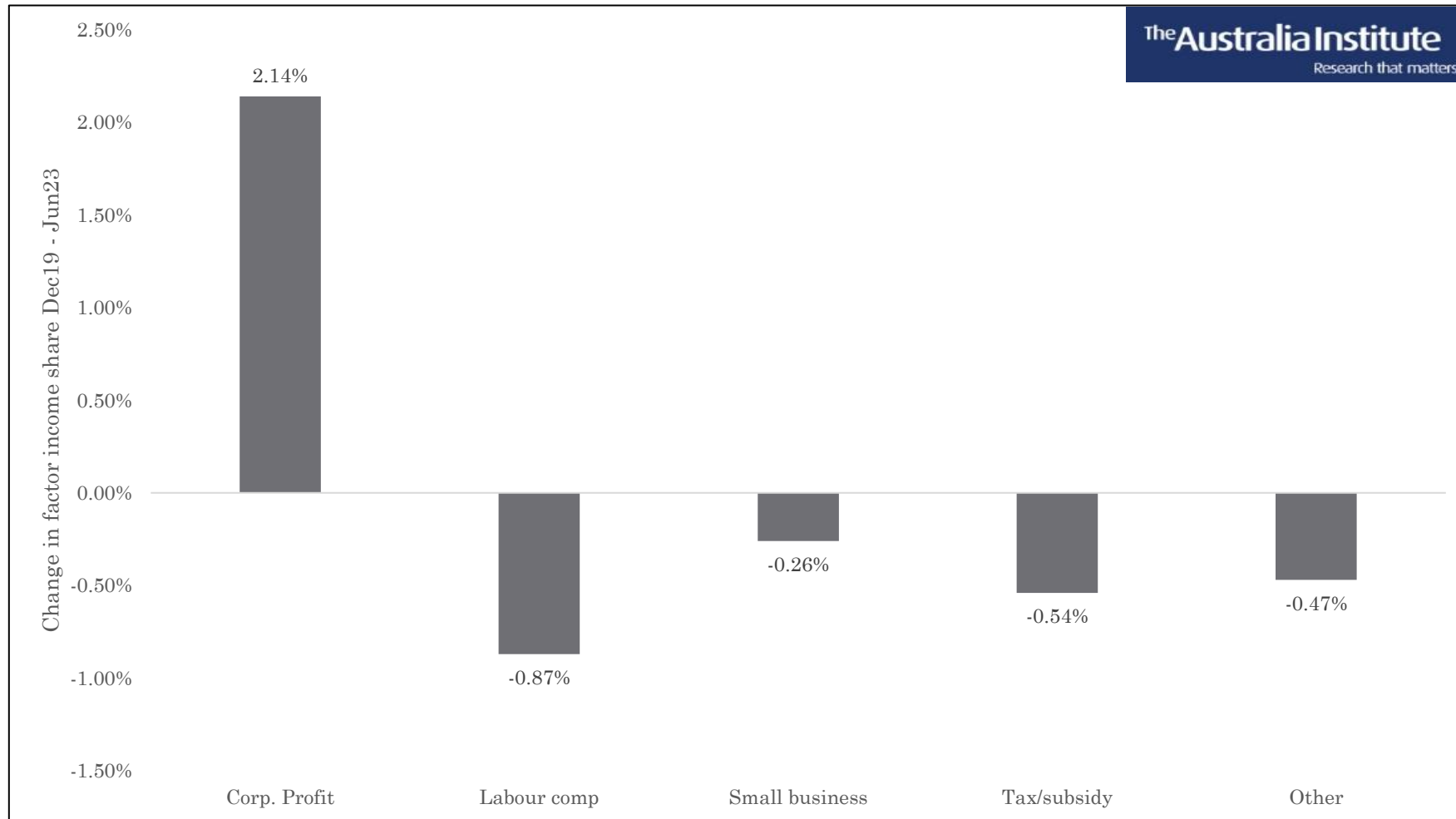
So what happened and who is to **blame**?

- 1. A global pandemic
- 2. The pandemic ends and things open up... but
- 3. Supply shortages – shipping issues, quarantine etc
- 4. Russia invades the Ukraine
- 5. Businesses taking advantage of the bad things to make profits

Isabelle Weber: “the sudden news of cost shocks, like the onset of a pandemic and war, grants companies more freedom to coordinate price hikes across sectors because they realize that their rivals are very likely going to do the same.”

“even if they simply keep their profit margins in response to a cost shock, their profits increase.”

Who is to blame? Companies



Who is to blame? Companies

It was **not**
just mining
profits

Profit margin of the Wholesale Trade Industry

Orange = greater than 5.5%

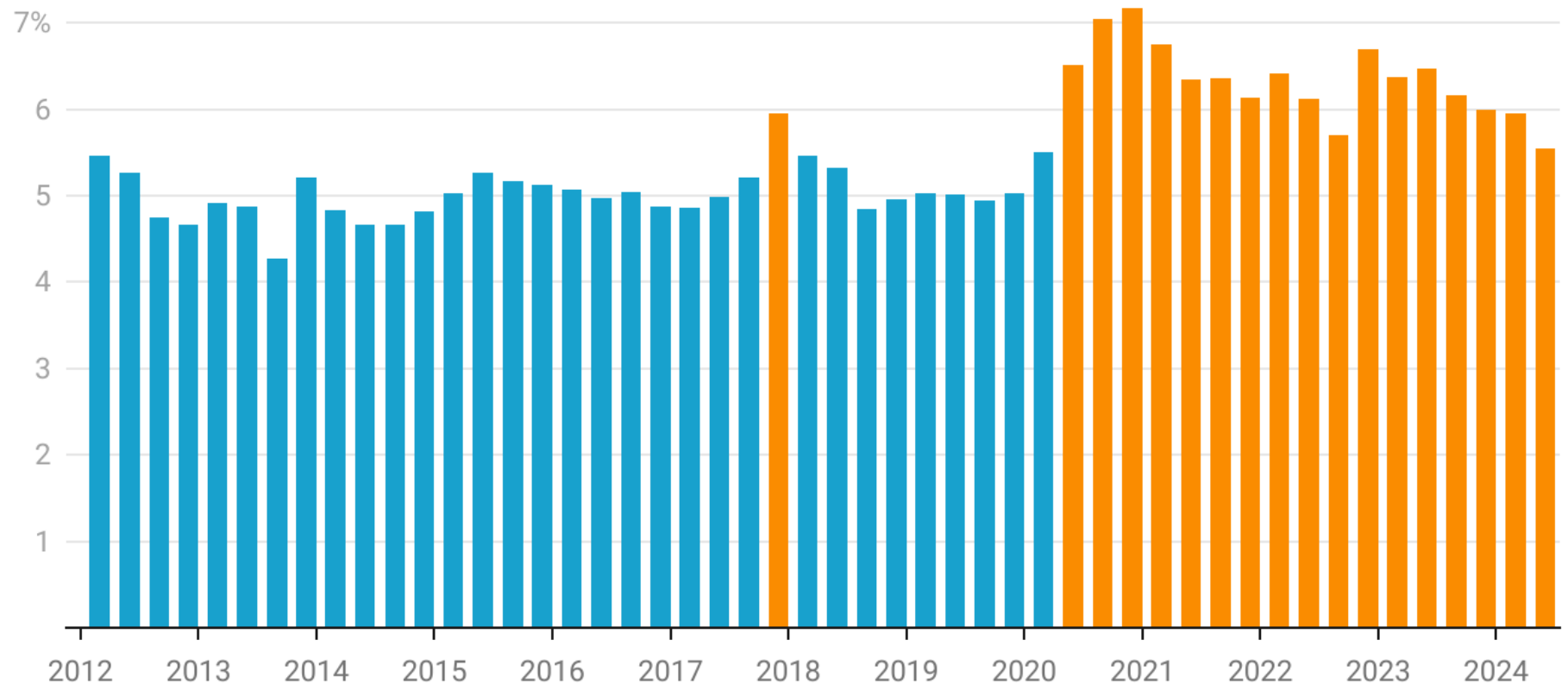
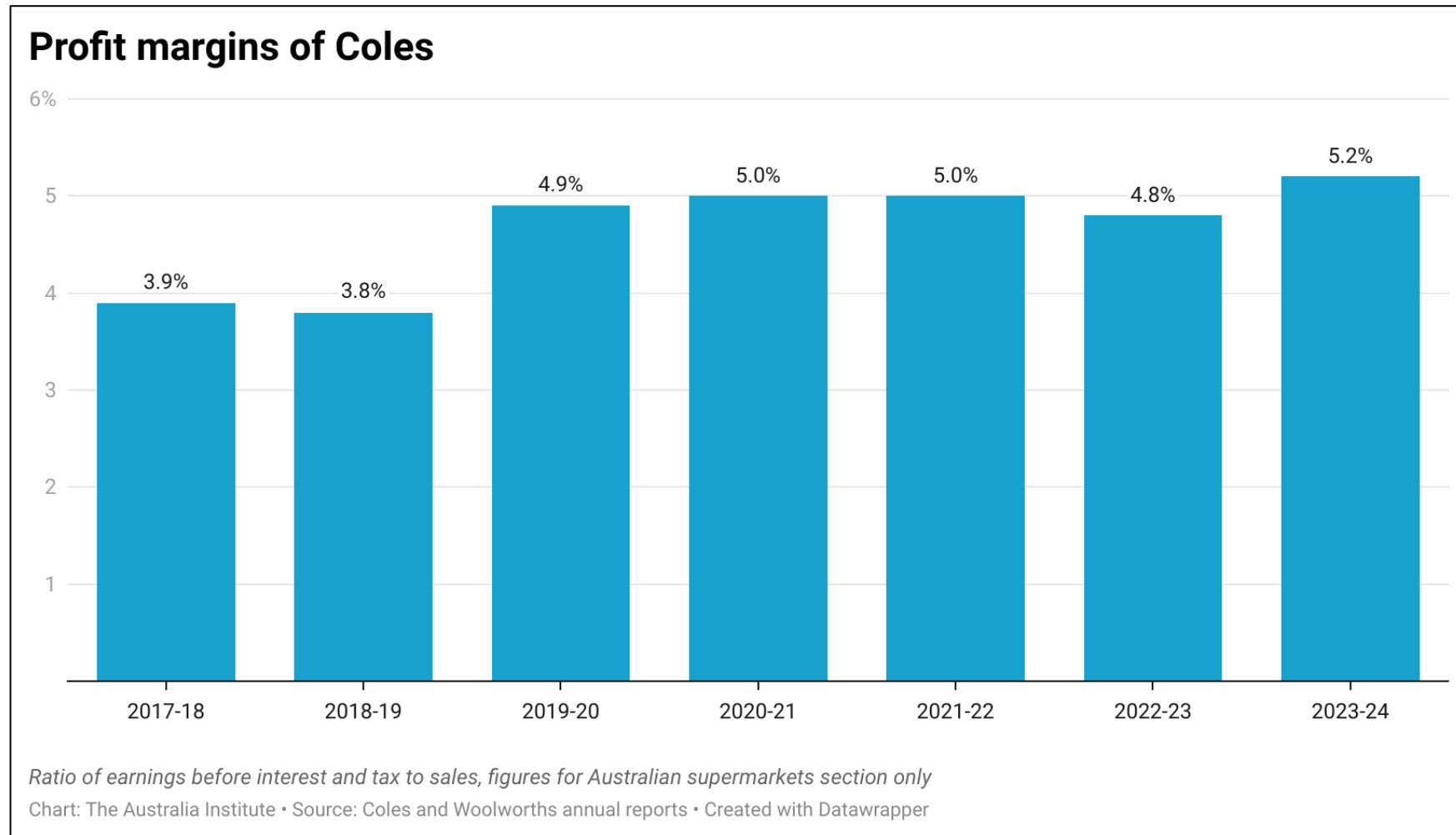


Chart: Centre for Future Work • Source: ABS Business Indicators • Created with Datawrapper

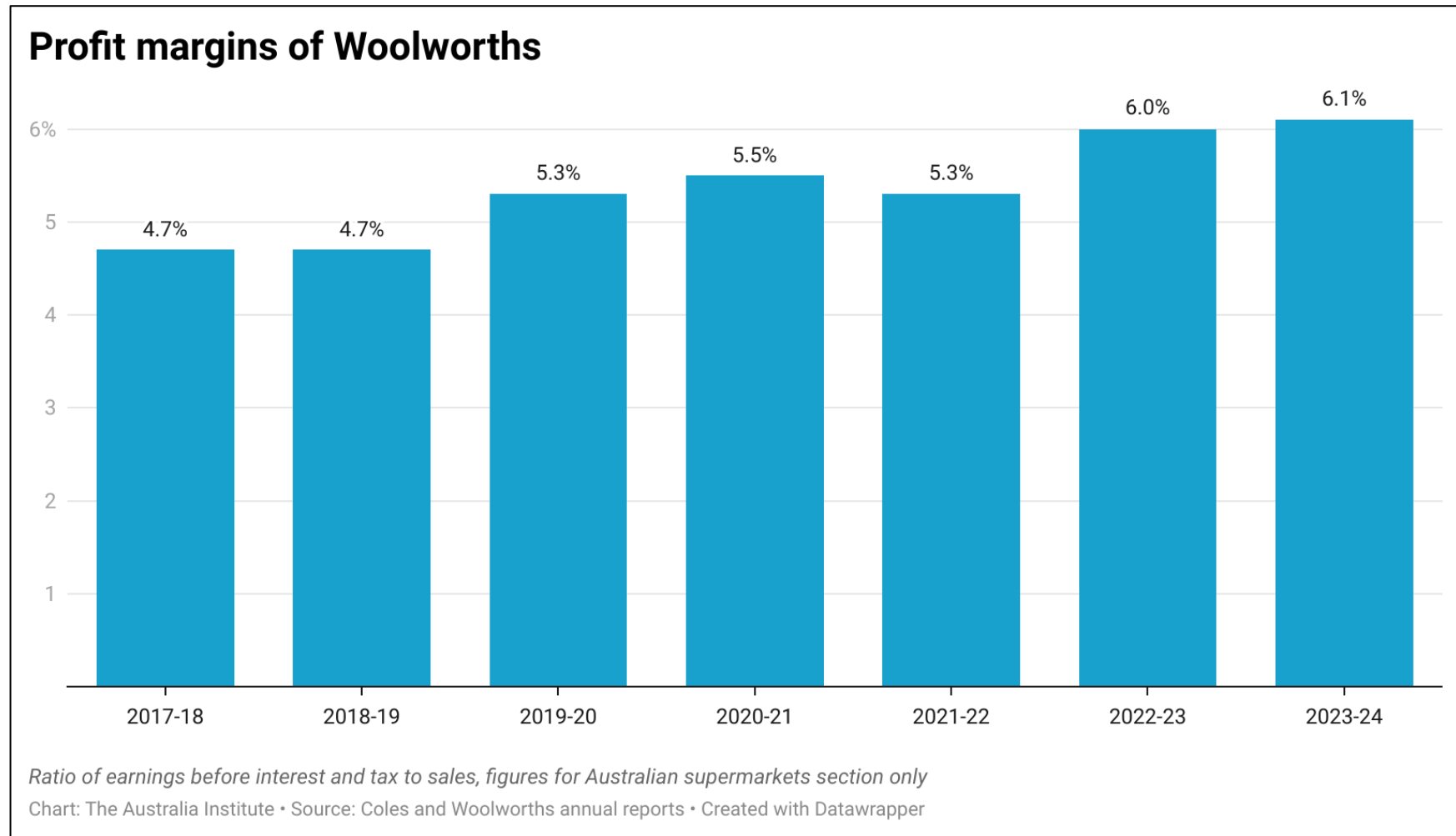
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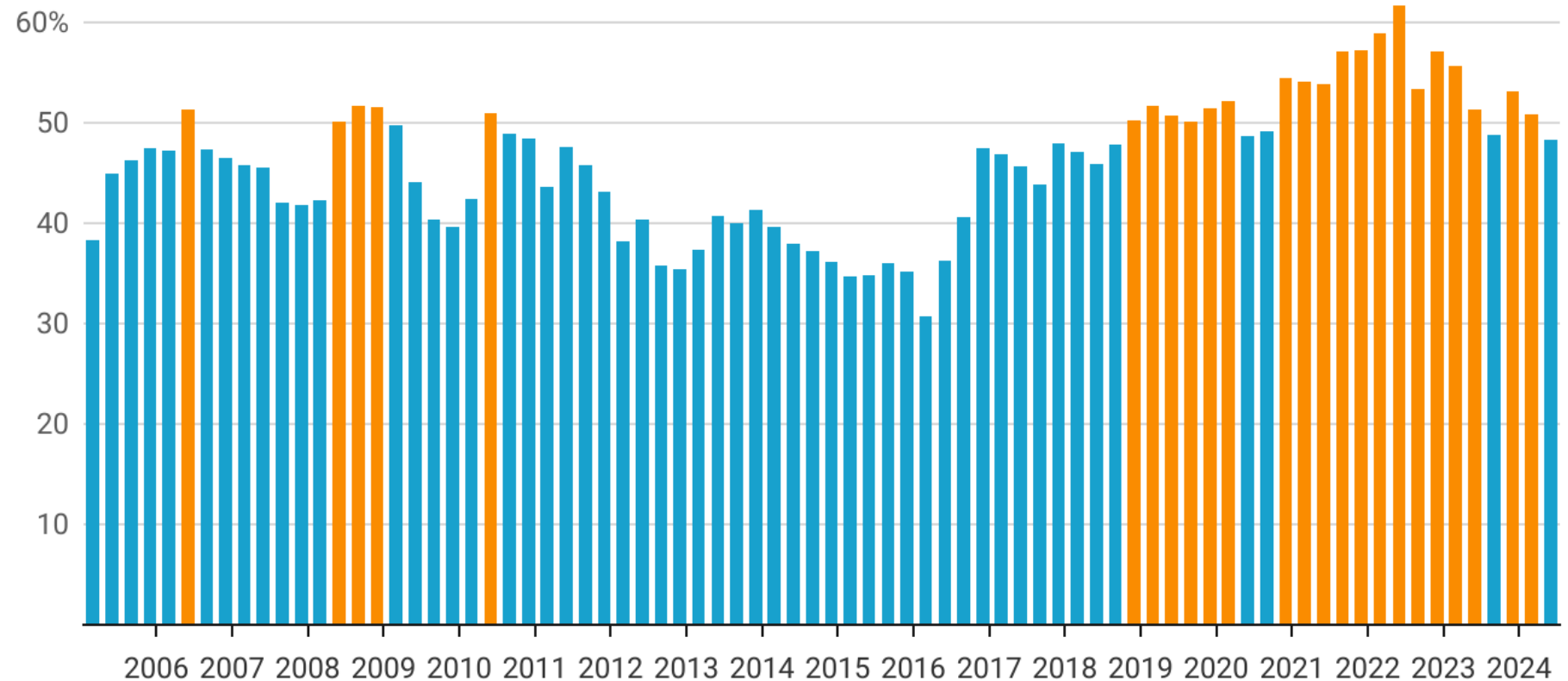


Who is to blame? Companies

But it was
also mining
profits

20 years of mining profit margins

Orange = 50% or greater



Source: ABS Business Indicators • Created with Datawrapper

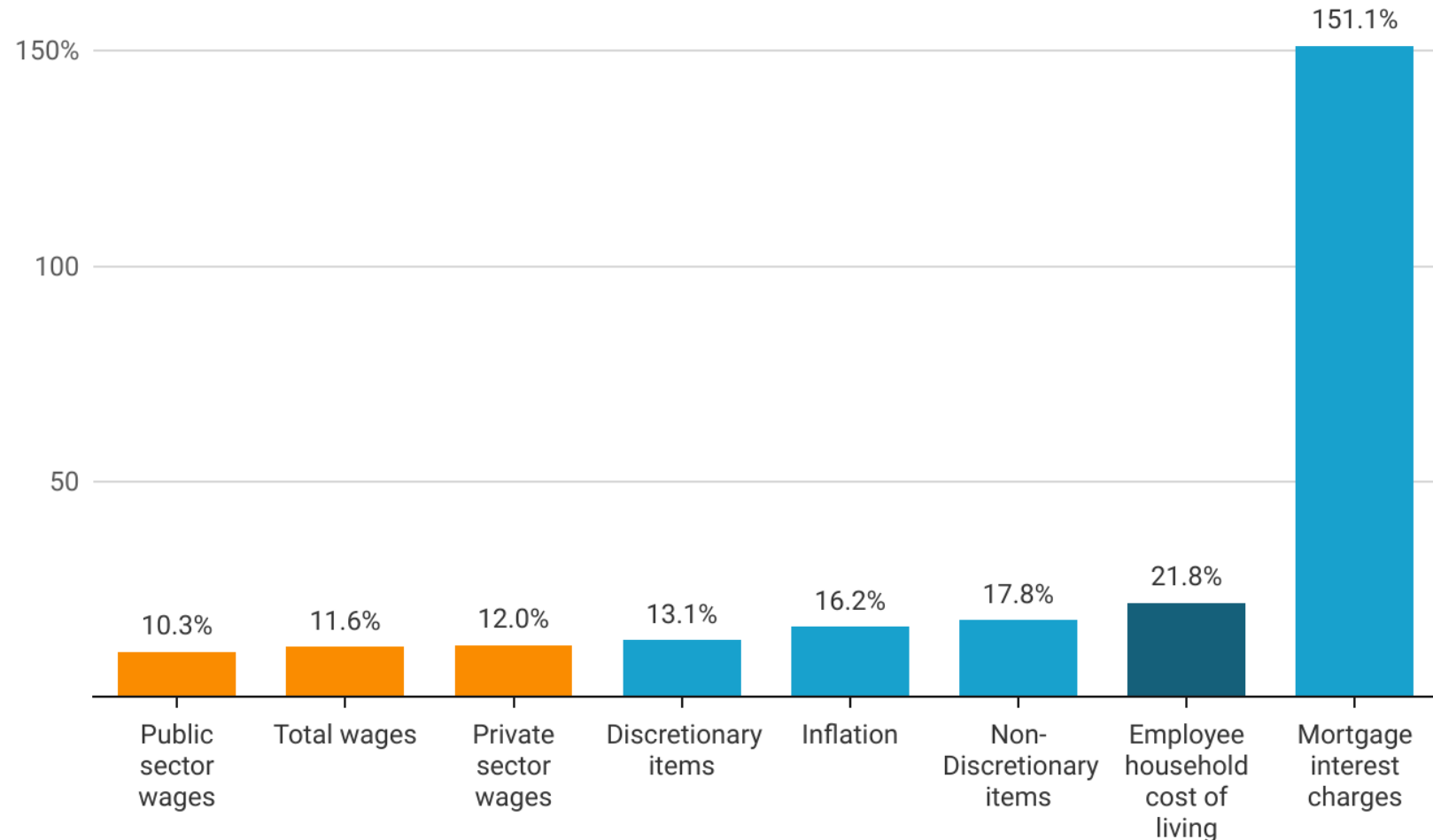
The Problem: The RBA

Biggest price rises were essentials...

Wages were not driving inflation...

But when the only tool you have is a hammer...

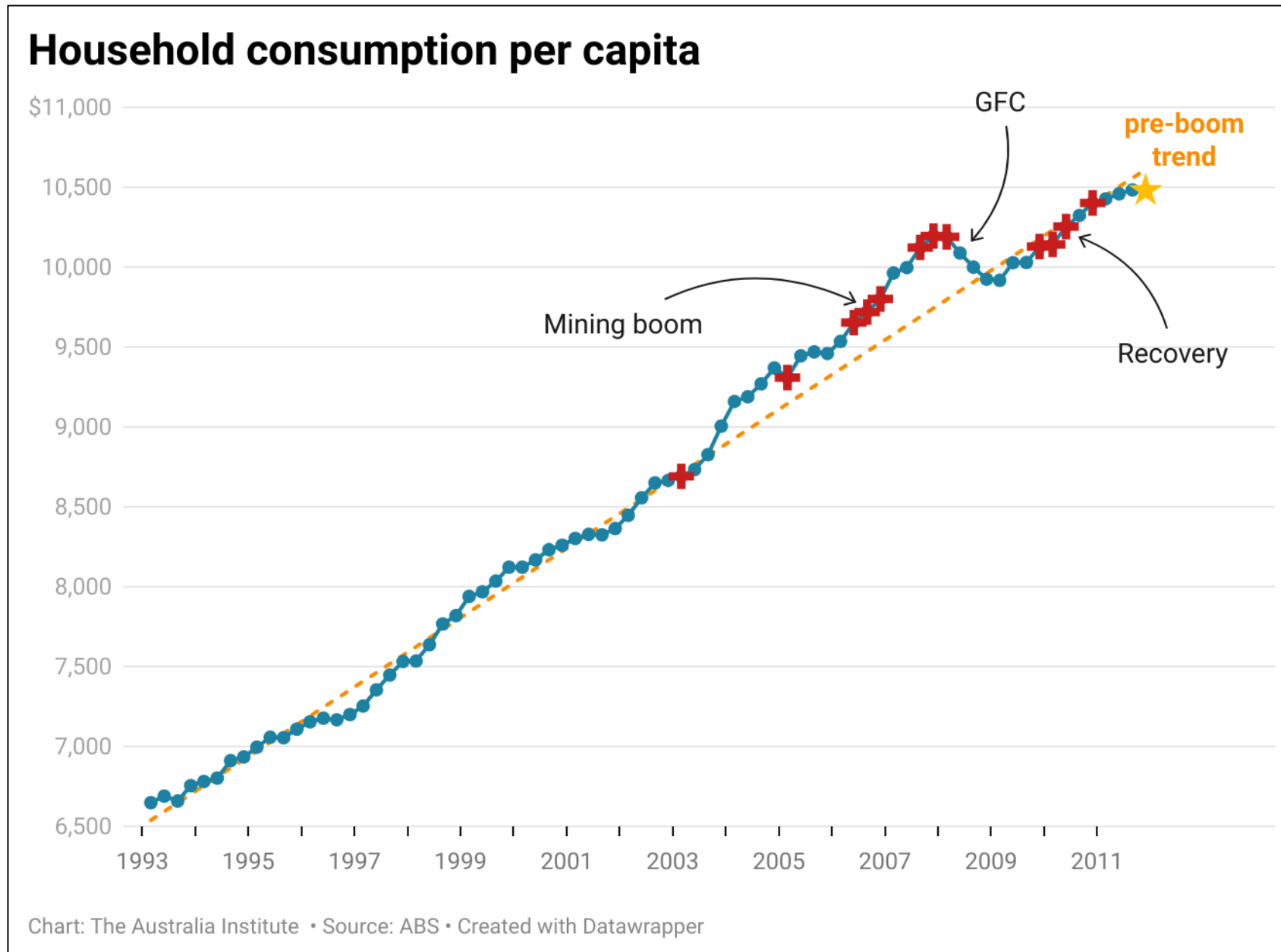
Growth of wages and prices - Sept 2021-Sept 2024



The RBA Solution FAILED

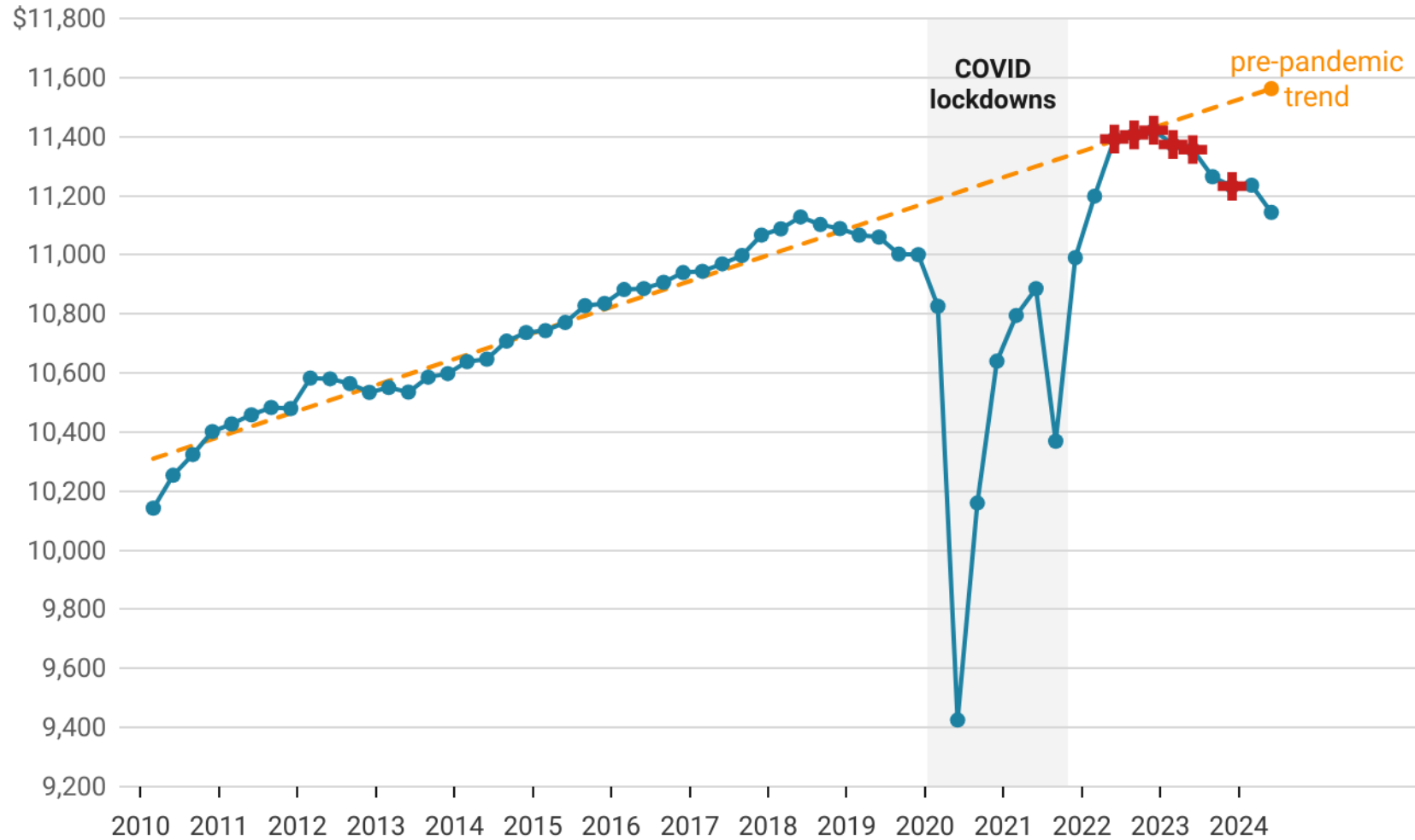
- RBA rate hikes are meant to slow spending because we are spending too much “excess demand”
- Spending though was already weak – rates just made it worse.
- Economic growth fallen to near zero.
- No technical recession (2 negative quarters) but only due to population growth.
- It **feels** like a recession.
- Myth of ‘**excess demand**’ obviously false.

The RBA gets it wrong – some history



The RBA gets it wrong – the post-pandemic

Household consumption per capita



Pre-pandemic trend: March 2010-Dec 2019 extended

Chart: The Australia Institute • Source: ABS 5206.0, Table 8, derived • Created with Datawrapper

The solution

1. Acknowledge the issue.
2. **Don't** talk about inflation – talk about prices.
3. **Don't** say it is up to the RBA – they have been part of the problem.
4. Forget guff about the RBA being “independent” – that does not mean beyond criticism.
5. Don't forget to talk about **wages**.

The solution - wages

1. Strong minimum-wage growth
2. Better bargaining – the government has been very good on this
3. Funding childcare and age care workers
4. No more public sector-wage caps
5. Same job, same pay
6. Stop buying into the line that wage rises will cause inflation.
They have not, they are not.
7. A strong safety net – Jobseeker (raise the rate)

The solution

Governments can lower prices

The cost of \$100 worth of electricity in June 2023

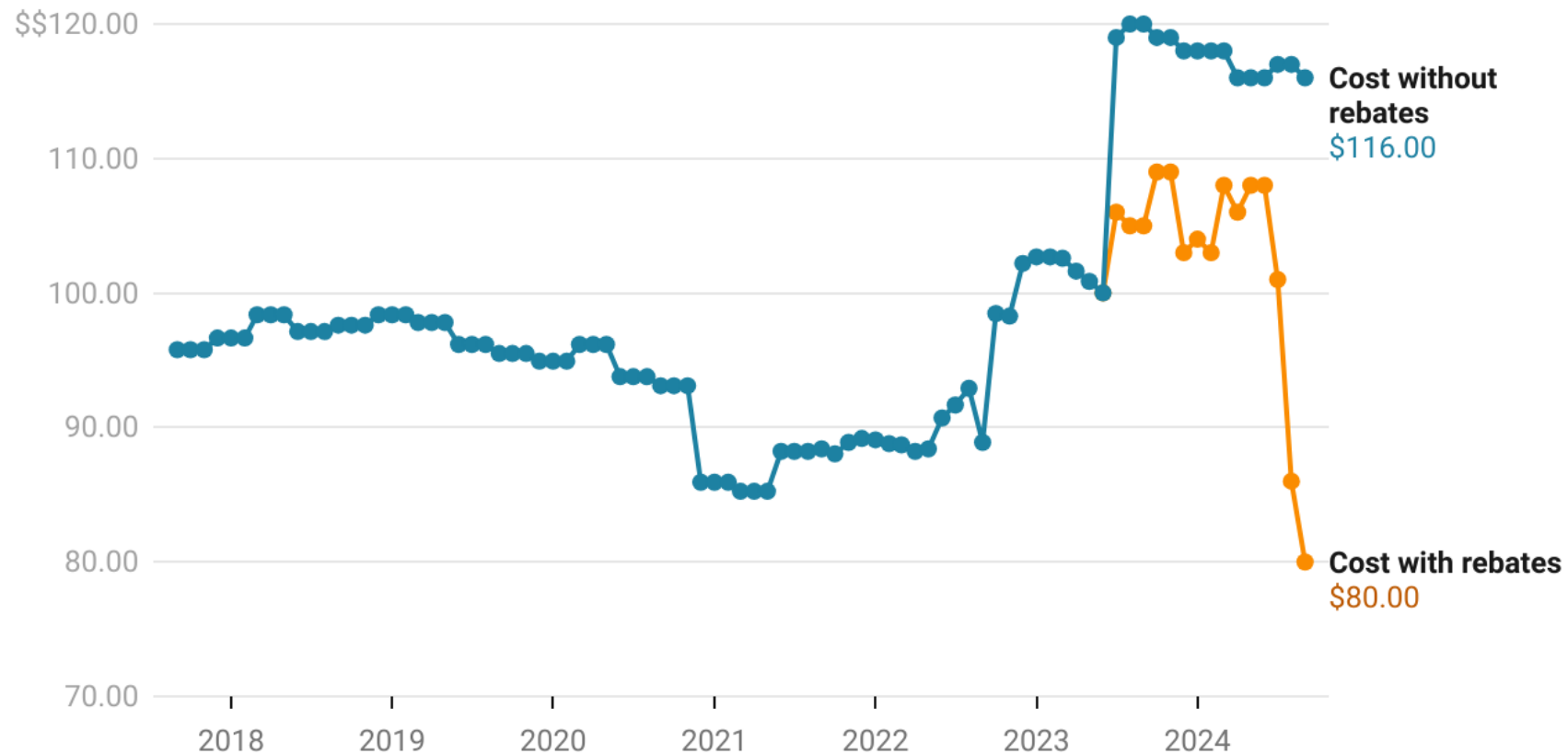


Chart: The Australia Institute • Created with Datawrapper

The solution

1. Ditch the belief that the **ONLY** way to lower inflation is higher interest rates
2. Governments **CAN** lower prices
 1. They did it for childcare
 2. They did it for electricity
 3. Why stop there?
3. Price controls
 1. OMG – COMMUNISM!!! No! – when workers are not to blame they should not wear the pain.
 2. Ditch the belief that the market works perfectly – Coles, Woolies, the Banks, Qantas etc etc
4. A Prices Commission – the ACCC does not care about prices
5. Instead of interest rates – superannuation
6. Support households; support public services
7. Tax companies! (see previous policy school)
8. People want action. Be bold. Be honest that more of the same delivers the same.

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Thank You