

The Economic Furphies That Sank Bligh

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It's easy to distort anxiety about economic issues to the disadvantage of incumbent governments. Ian McAuley on how privatisation and cost-of-living pressures helped sink the Bligh government

An electoral defeat as overwhelming as that of the Bligh government has many causes. The LNP ran a ruthlessly effective campaign, masterminded by the Crosby-Textor Group. The Wivenhoe Dam Report could not have come at a worse time for the government. The state is undergoing the disruption of huge structural change associated with mining and rapid population growth. And there was the inevitable weariness of a government which had held office for 13 years.

Others have written on these matters, but there are also two economic issues which went against the Bligh Government — privatisation and cost-of-living pressures, or at least the perception of cost-of living pressures.

The privatisation of Queensland Rail was a politically costly decision. Because it was in breach of a pre-election commitment many commentators will relate it to Julia Gillard's promise on carbon pricing. And some will refer to dissatisfaction with "Brand Labor" — whatever that means. Those who seek enlightenment on such views will find the thoughtful contributions in response to Linda Silimalis' article in Sunday's Telegraph of interest. But if breaking promises were a political hanging offence, no government in Australia would ever be re-elected.

Privatisation itself is an issue of concern to voters. People do not like to see their assets sold — assets which their taxes and user-charges have built up over many years. It's as simple as that. Just as people don't sell their houses to landlords and then rent them back, they feel rightly annoyed when governments do something just as irresponsible with their public assets.

The two main excuses governments use for privatisation are feeble. One is that if the government must sell public assets in order to fund other public infrastructure, because governments must not extend their debt. Such privatisation, however, still makes the same, or even greater, demands on financial markets. In effect, privatisation is simply a sneaky way of hiding debt, by shifting it off one side of the government balance sheet, without acknowledging that it also shifts valuable assets off the other side of the balance sheet. To the extent that such sales are almost inevitably under-priced, the government's net worth is weakened. That's fundamental accounting.

The other purported reason for privatisation is the claim that when enterprises such as railroads and power utilities are in public ownership, they are inefficient. The private sector will always do a better job. It's an argument based on faith rather than science, and those who gain from privatisation do nothing to subject the argument to scrutiny. If government business enterprises are indeed inefficient (and there is no evidence in support of such a generalisation) it begs the question why the government has let them become that way. Privatisation is a lazy and expensive alternative to managerial reform.

There are other economic problems with privatisation. For a detailed economic analysis of privatisations, including those which took place on the Bligh Government's watch, see John Quiggin's articles on the topic on his blog. Privatisation rarely delivers its claimed benefits (except to financiers and overpaid managers), and it is politically costly, a point which other state governments, including the Victorian clinging to power by one seat, should bear in mind.

The other economic issue to arise in the Queensland election, particularly in the exit polls, was concern about cost-of-living pressure. We all know that life is getting tougher — isn't it?

The only trouble with that explanation is that there is no general squeeze on Australians' cost of living. Prices have been rising in recent years, but incomes have been rising faster. (In fact, over 2011, there was no movement in the national Consumer Price Index, and Queensland even saw a small fall.) Early last year Tim Soutphommasane of Per Capita wrote a carefully researched paper, *Just Get Over It: The cost of living in Australia*, in which he concluded that:

"Wage growth, low unemployment and higher household savings levels all indicate a disproportionate level of concern about the rising cost of living. Australian households are, on average, better off now than they ever have been."

A journalist, sceptical of this finding, and seeking input for a horror story about living costs, asked for my view, and I embarked independently on a similar research project, using slightly later data, and came to the same conclusions as Tim Soutphommasane. The paper is published by the Centre for Policy Development.

The only broad groups who may have slipped behind were some on CPI-linked allowances (such as Newstart recipients) and renters in a tight property market. The rent issue is certainly relevant in Queensland's mining towns, but it's not widespread enough to explain the general perception that we're all doing it tough.

What our research reveals, unsurprisingly, is that some prices have risen more than others, and that some prices have actually fallen. Falls have occurred in items such as electronic goods and telecommunications and also in some basic necessities, such as clothing. Strong rises have occurred in some other items, particularly fuel, power and other household utilities. Even these utility price rises however, while being higher than average inflation, have not been greater than the rise in incomes, and, in any event, domestic fuel and power bills account for only 2 per cent of household expenditure.

One explanation for the perception of a cost-of-living squeeze is the finding in behavioural economics that we take more notice of price rises than of price falls. For example, the inflation-adjusted cost of "private motoring" as defined by the Australian Bureau of Statistics has actually fallen by 10 per cent over the last 15 years. While gasoline prices have risen, the cost of new and used cars has fallen, and cars have become more reliable with longer service intervals and longer life expectancy. But it's the pump price we notice, and that's the price which commands headlines in the daily tabloids and the attention of the shockjock talkback hosts.

The Bligh government paid dearly for its 2009 abolition of a small state gasoline subsidy — no matter that Queenslanders, like other Australians, were enjoying much lower costs for other components of car use.

There are other explanations for the biased perception, described more fully in the two papers referred to above. Many price rises are "lumpy", while price falls are slow and ongoing. There is also an illusory "wealth" effect: when house prices are rising people feel more wealthy (not realising that such rises are simply asset price inflation), and when they are no longer rising they feel more financially constrained. And, for electricity in particular, people tend to confuse price and quantity: in the sprawling suburbs south of Brisbane, there has been a large growth in air-conditioning in recent years, and when there is the shock of a bill that's higher than the bill for the previous month or quarter, people don't notice that much of the rise may be because of increased consumption. It's easier to blame the electricity company, and to be apprehensive about the "big new tax", than to examine one's lifestyle.

This biased perception of cost-of-living pressure is costly for incumbent governments, and has provided easy headlines for partisan media. It's also inimical to economic growth, because economic growth inevitably involves changes in relative prices: some things become more expensive while others become cheaper. This is particularly so for the adjustments we will have to make to a world in which we are running up against the sustainable limits of the planet's biosystems, and, more specifically in Australia, the adjustments we will have to make once the mining boom runs out of puff.

Those in the mass media who exploit these misperceptions and those in the "quality" media who do nothing to correct them, are doing us all a disservice.