

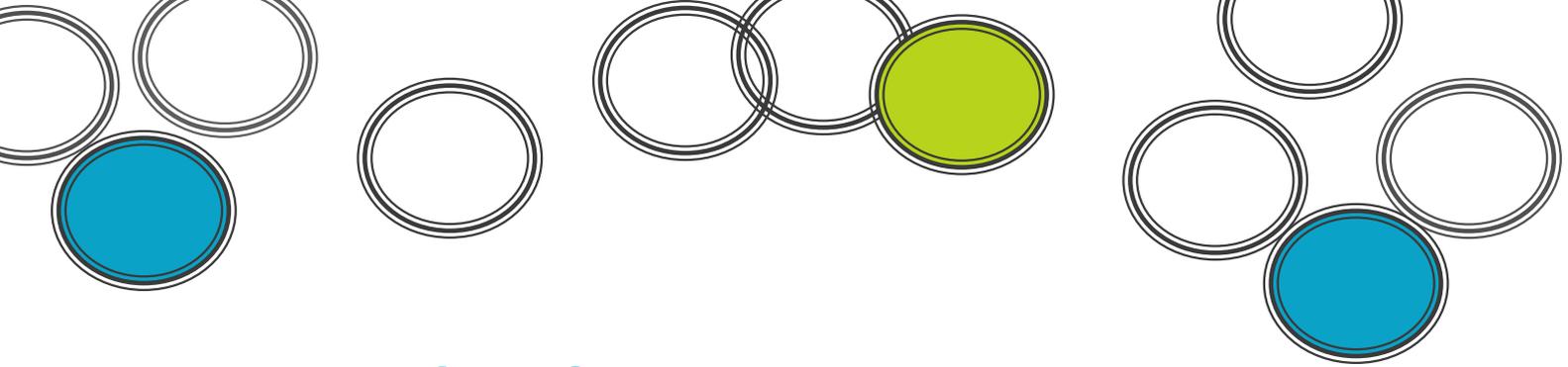
# JUST GET OVER IT

The Cost of Living in Australia

Tim Soutphommasane



percapita



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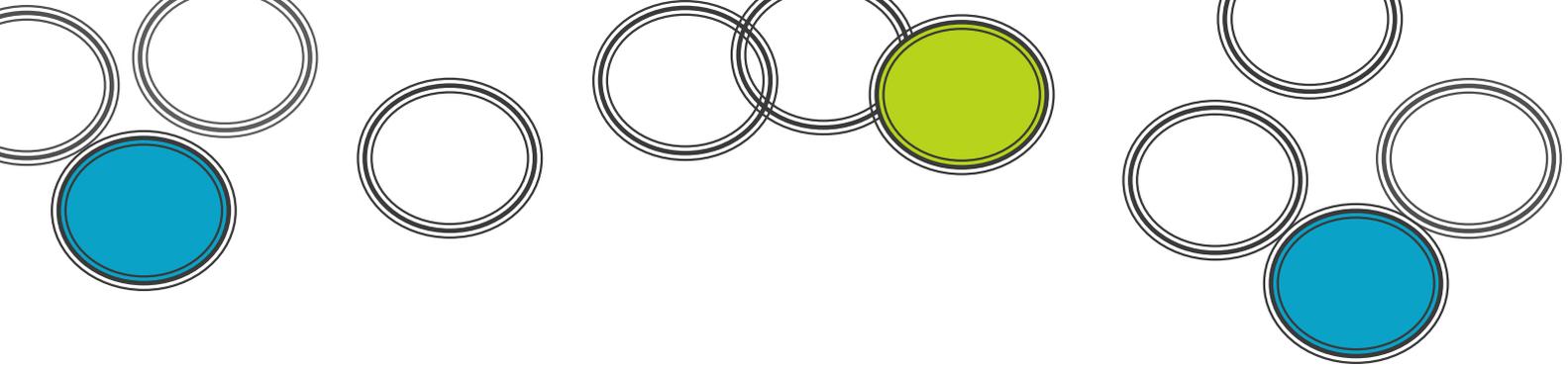
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## About the author

**Dr Tim Soutphommasane** is a senior project leader at Per Capita. His publications include the books *Reclaiming Patriotism: Nation-Building for Australian Progressives* (Cambridge University Press, 2009) and *All That's Left: What Labor Should Stand For* (co-edited with Nick Dyrenfurth, New South Books, 2010). His previous Per Capita reports include *What Crisis? Wellbeing and the Australian Quality of Life* (2011) and *Memo to a Progressive Prime Minister: Leadership for the Long-term* (2010, with David Hetherington). Tim holds a master's degree and doctorate in political theory from the University of Oxford, where he studied as a Commonwealth Scholar.

## Acknowledgements

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## About Per Capita

Per Capita is an independent progressive think tank which generates and promotes transformational ideas for Australia. Our research is rigorous, evidence-based and long-term in its outlook, considering the national challenges of the next decade rather than the next election cycle. We seek to ask fresh questions and offer fresh answers, drawing on new thinking in science, economics and public policy. Our audience is the interested public, not just experts and practitioners.

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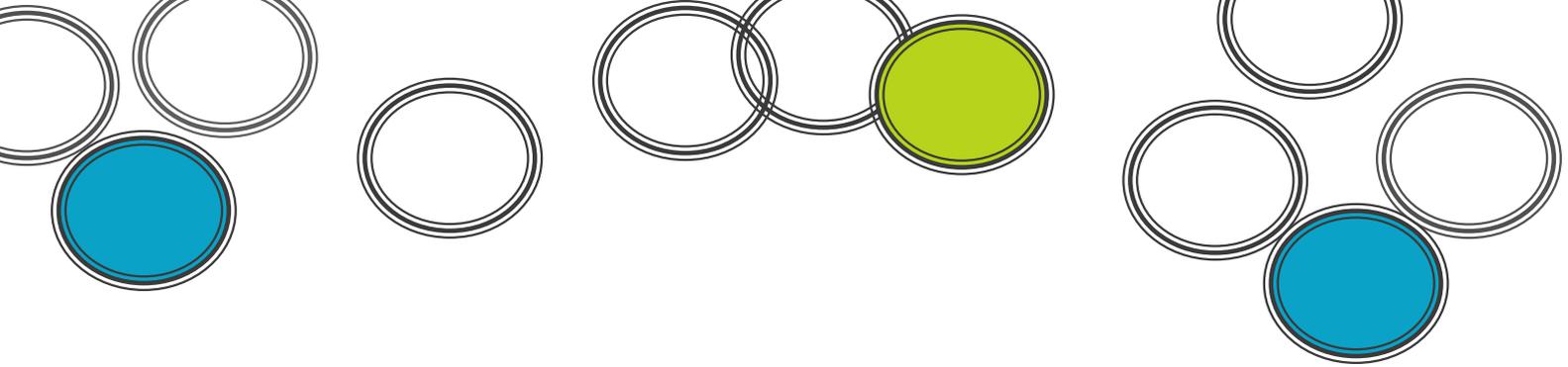
## Executive Summary

This paper investigates the cost of living in Australia, an issue that has dominated recent political debate. It evaluates whether cost of living complaints are justified in light of economic reality and household consumption patterns. It considers how governments should respond to cost of living issues.

While much public discourse suggests there is a generalised cost of living crisis, the reality is less alarming. Inflation figures indicate only a modest increase in the cost of living, even when adjusted to include mortgage interest and consumer credit charges. While the cost of some essential items have experienced price rises that exceed the CPI, with particularly negative effects on those on fixed and low incomes, these must be considered in light of the full economic context. 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 more complete picture would recognise that household residential and consumption patterns can significantly influence the cost of living. A significant gap exists with respect to the representation of cost of living issues in the media. There is an overwhelming focus on what government can do to alleviate living pressures on households, with very little on whether households themselves are contributing to their financial pressures. Yet subjective cost of living pressures are associated with rising expectations about a decent standard of living in Australia. Australians have enjoyed increasing prosperity: our new houses are the biggest in the world and our expenditure on household goods, particularly electrical goods, has grown dramatically. As we acquire more and live more comfortable lifestyles, however, it follows that the cost of living will grow as well. Uninterrupted economic prosperity may, somewhat counter-intuitively, be heightening people's exposure to even modest increases in cost of living.

There is a genuine expectation that the state should guarantee a comfortable standard of living. It has now become an iron law in our politics that politicians must pledge to ease the pain of households doing it tough – and not merely those on lower incomes. This paper argues that in a market economy there is only a limited sense in which a state can control cost of living pressures specifically. Rather, the role of the state in providing social assistance is better defined by a principle of *need*. The state should ensure the conditions for a fair and civilised society: equal opportunity, public goods, and assistance in time of hardship. But it should not succumb to the political temptations of middle-class welfare. This paper proposes a medium term policy agenda aimed at encouraging individuals to adopt more sustainable consumption and lifestyle patterns.



## Introduction

The ongoing debate about the introduction of a carbon price and its impact on households confirms one thing. This year has been a year in which our national politics has been preoccupied, more than ever, with the cost of living. Barely a day or week passes when the news does not feature politicians either pledging to control the cost of living or expressing their sympathy with 'working families' struggling under the yoke of rising prices.

This report is the second in Per Capita's Quality of Life research series. The first report, *What Crisis? Wellbeing and the Australian Quality of Life* (published in February 2011), examined Australians' pervasive sense of anxiety about their quality of life. In particular, *What Crisis?* evaluated perceptions about the difficulty of maintaining an Australian cultural lifestyle in the context of population growth. Cost of living concerns cannot be divorced from such anxiety. But they have also assumed political and social significance in their own right. Politicians ignore households' complaints about rising prices at their peril. However, to what extent do the complaints about the cost of living reflect reality? Have factors such as household consumption and lifestyle patterns contributed disproportionately to any recent rises in the cost of living? And how should governments respond to cost of living issues?

Any assessment of the cost of living should be made within the context of a strong Australian economy that has experienced sustained growth, rising incomes and low unemployment. Australian households are, on average, better off now than they ever have been. Complaints that official measures of consumer prices fail to reflect rises in the real cost of living, meanwhile, ignore how a range of statistical indices measuring the cost of living have generally tracked trends in inflation. This is not to deny that many Australians, particularly those on fixed and low incomes, face economic pressures from rising food and electricity prices, when they do occur. The debate about kitchen table economics, though, presents a vastly different portrayal of a generalised squeeze on households.

A more nuanced view would recognise that household residential and consumption patterns can significantly influence the cost of living. This point is missing in the representation of cost of living issues in the media. There is an overwhelming focus on what government can do to alleviate living pressures on households, with very little on whether households themselves are contributing to their financial pressures. Yet cost of living hysteria is arguably a symptom of more expensive household lifestyle patterns. There is a cognitive dissonance among many Australians about the impact that living in larger homes, and enjoying more material consumer goods, will have on the cost of living. This is reinforced by rising expectations about the duties of federal governments to support their citizens' lifestyles.

It is argued in this report that the proper role of government intervention in the cost of living will necessarily be limited in nature. There is a danger that an unrealistic burden of expectation is being placed on government, given the historical character of the Australian welfare state. Government social assistance should be guided by need, not greed – and this must apply to questions of cost of living. In the medium term, government actions should focus on encouraging individuals and households to adopt more sustainable consumption and lifestyle patterns. Cost of living issues should be regarded as implicating not merely economic questions of living standards, but broader philosophical questions about quality of life and wellbeing.



## 1. The real story on the cost of living

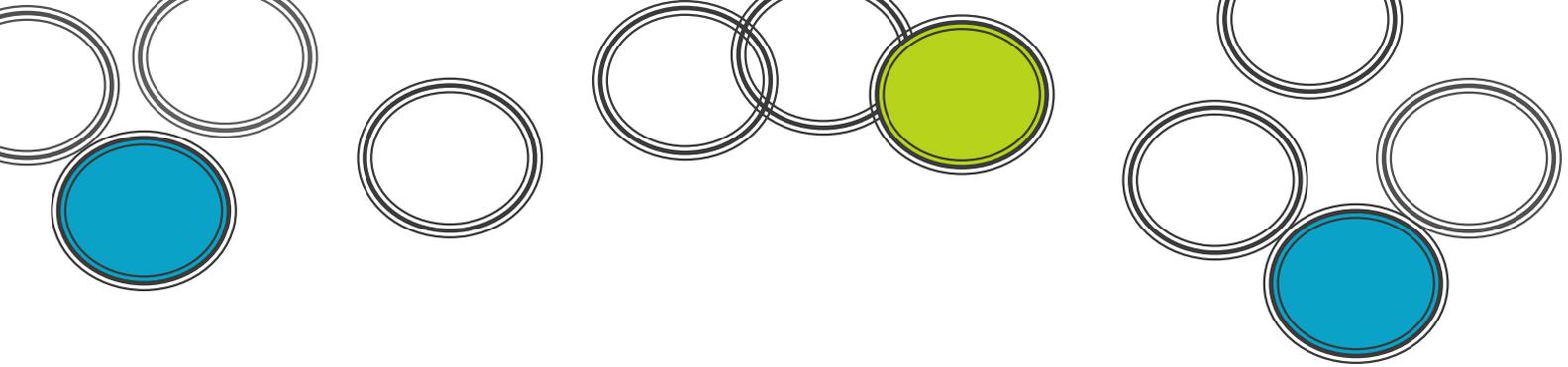
Earlier this year the *Herald Sun* commissioned the National Centre for Social and Economic Modelling (NATSEM) to assess whether households were better or worse off than they were five years ago. Amid regular complaints about the rising cost of living – higher petrol prices, larger electricity bills, more expensive groceries – one could be mistaken for believing that Australians' living standards have taken a recent blow. Yet NATSEM found that the average Australian household is \$23 a day better off than it was five years ago (Hudson, 2011)<sup>1</sup>. The findings, which were published in early May 2011, did not appear to conform with the *Herald Sun's* expectations. As the newspaper editorialised, while NATSEM's analysis showed that income tax cuts, higher welfare and pay rises generally offset any rise in the cost of living, the report 'should be treated with a note of caution because darkening storm clouds are gathering on the horizon' (Herald Sun, 2011).

The *Herald Sun*-NATSEM episode is revealing of our current debate. A comprehensive survey of the state of affairs may show that there is limited basis for believing there is a crisis in living costs, but that should not get in the way of anxiety and panic. As the *Herald Sun's* editorial put it, 'Many are doing it hard, trying to cope with the jump in basic living costs' (Herald Sun, 2011). What such commentary obscures is the very analysis that was the basis of the editorial in the first place: Australian households are better off than they were five years ago and have never had it so good. Such selectivity makes it easy to forget that while prices may be going up, so too are incomes and government transfers. There is very little proportion in the typical media and public responses to rises in the cost of living.

Perversely, concerns about cost of living dominate contemporary Australian politics. When Opposition Leader Tony Abbott made his budget reply speech in May, he chose not to provide an alternative budget but rather sought to 'reach out to Australian families [...] struggling under a rising cost of living' (Abbott, 2011). More recently, political debate about the introduction of a price on carbon – the most significant reform that is being pursued during this parliamentary term by the Gillard government – has been defined largely by the question of how much impact it will have on household budgets and living standards. For the Opposition, highlighting cost of living pressures has been easy pickings; for the Government, it has been an issue that it would ignore only with grave electoral consequences. In any media interview or speech given by politicians of either major political party, there is likely to be a mention of cost of living pressures – whether it is to warn of the supposed folly of legislating for a carbon price, or to express understanding with the supposed plight of Australians who find it difficult to meet their household expenses.

This is a relatively recent phenomenon. An analysis of content in major metropolitan newspapers shows that during the years 2002-06, the phrase 'cost of living' was mentioned a total of 1711 times compared to 5493 times during the years 2007-11 (up to 30 June 2011; see Figure 1.1). To some extent, this can be attributed to then Labor opposition's political strategy of focusing on cost of living pressures leading up to the November 2007 election. This was continued once Labor was in power. The Rudd government's GroceryWatch and PetrolWatch initiatives ensured that cost of living issues remained politically live concerns (as reflected in particular by the

<sup>1</sup> Recent Australian Bureau of Statistics figures show that the global financial crisis had some impact on incomes, particularly among the richest 20 per cent of households (ABS, 2011a). But Australian households are, on average, doing about as well as they ever have been.



high number of cost of living mentions in the media during 2008). Yet cost of living concerns have only assumed such pronounced importance with the onset of the debate about the introduction of a carbon price. Through to the end of June this year, there were 1595 mentions of the cost of living in major metropolitan newspaper articles (in article headlines and lead paragraphs).

**Figure 1.1: Mentions of the cost of living in the media, 2002-2011**

Sources: The Australian, The Daily Telegraph, The Canberra Times, Herald Sun, Courier Mail, The Advertiser, The Age, The Sydney Morning Herald, The West Australian. From 1 January 2011-30 June 2011 there have been 1595 mentions of cost of living.<sup>2</sup>

It cannot be denied that there is considerable public concern about rising costs of living. One report from Suncorp in September 2010 found that one in four Australian respondents believed they would struggle financially if there were to be further increases in the cost of living (Suncorp, 2010). Another, from mortgage insurer Genworth in March 2011, suggested that the cost of living has overtaken interest rates as the single biggest concern among homeowners. The same Genworth report highlighted that Australians are now among the most heavily leveraged homebuyers in the world, and that 39 percent of Australian respondents are using over half of their income to service debt (Genworth Financial, 2011a).

Whether there is a genuine basis for cost of living concerns is, however, debatable. Official inflation figures indicate an increase in the cost of living that remains far from dramatic. The Australian Bureau of Statistics' Consumer Price Index rose by 3.6 per cent from June 2010 to June 2011 (ABS, 2011b), and remains consistent with the Reserve Bank of Australia's 2-3 percent target on a year-ended basis.

<sup>2</sup> This information was compiled using the Factiva database. The projected figure for 2011 is based on doubling the total mentions of cost of living during January-June 2011.

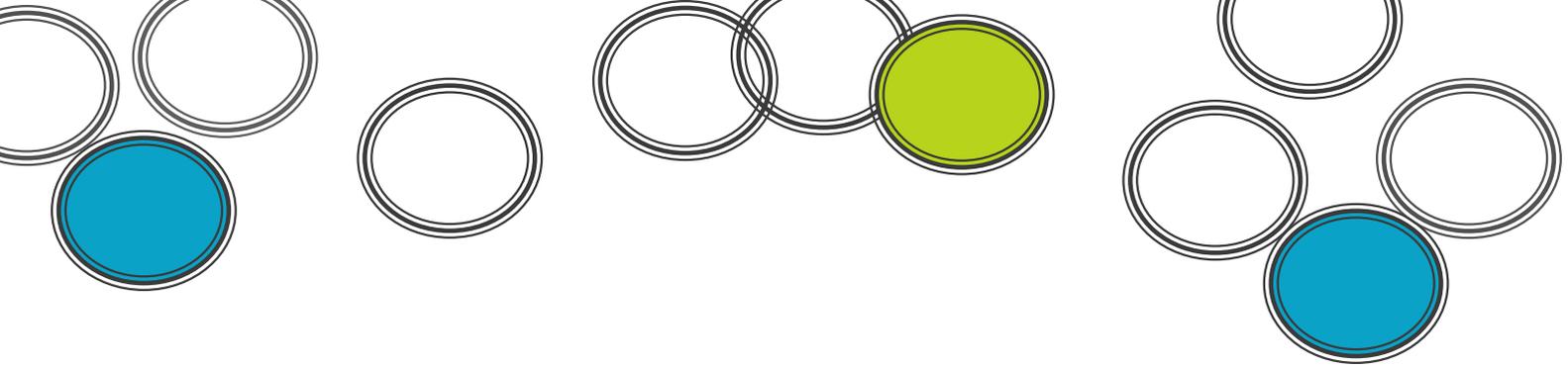


Then again, some commentators and analysts highlight that the CPI is not necessarily an ideal guide to living costs.<sup>3</sup> Alternative measures, such as JPMorgan's cost of living index (which, unlike the CPI, includes price movements in mortgage interest and consumer credit costs), suggest that the cost of living rose by 4.6 percent for the year to September (JPMorgan, 2011). Nonetheless, it seems misleading to dismiss the CPI as a broad guide to the cost of living. If there are limitations to the CPI in measuring variations in the cost of living, these have been addressed by the ABS with its introduction of analytical living cost indices (adjusted for selected household types, and including mortgage interest and consumer credit charges). And yet even on these measures, trends in the cost of living have historically remained in line with trends in the CPI (Figures 1.2 and 1.3).

**Figure 1.2 Cost of living and Consumer Price Index trends, 1998-2011**

Source: ABS, 2011c

<sup>3</sup> The most recent CPI changes (current as of August 2011) exceeded expectations, but this is largely attributable to natural disasters driving up the price of fruit. Fruit prices increased by 26.9 percent in the June quarter of 2011 due mainly to an approximate rise of 138 percent in the price of bananas, which was caused by shortages created by Cyclone Yasi (ABS, 2011b).

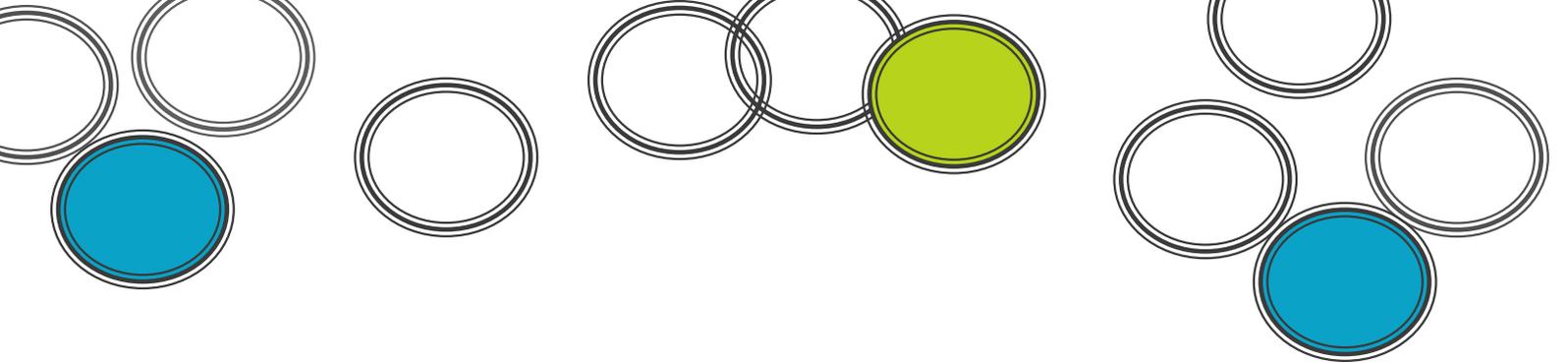


**Figure 1.3 Cumulative changes to CPI and ACLI, June 1998-March 2011**

Source: ABS, 2011c

Much of the debate about the CPI's relevance concerns price rises in essential items. Items such as food, utility, housing and public transport have indeed experienced price rises that exceed the rise in the CPI. This in and of itself does not mean that costs are spiralling out of control. Any rising costs must be considered within the full economic context. While some items may be rising in price, this may be offset by falling prices in other goods and by people substituting cheaper items for expensive ones (say, substituting apples for bananas). People have a behavioural bias towards noticing rises in prices disproportionately compared to any falls in prices (Gittins, 2011; see also Fuller, 2009). Moreover, any consideration of rising living costs must take into account movements in wage and unemployment levels. Unemployment levels remain at just over 5 per cent; real wages have been rising at about one percent per year for the last five.

The intensity of complaints about the cost of living do not seem warranted by the broad trend in economic conditions, although two other factors may be at play. One is that Australian households are currently deleveraging, as indicated by the return of household savings to levels that existed before financial deregulation in the 1980s. National accounts figures show that whereas before the global financial crisis in 2008, households on average spent more than they earned, they now save about 10 percent of their earnings – and have been since late 2008 (RBA, 2011; Megalogenis, 2011; Irvine, 2001). This has had a significant impact on households, given the scale of the adjustment: in March 2008 the ratio of household debt to annual disposable household income sat at 160 per cent (ABS, 2009a). The other is that house prices and rents have been well above their historical levels, leaving households to devote a large share of their incomes to servicing mortgage and rent costs (Genworth Financial, 2011b). The steady rise in interest rates between 2002 and 2008, and the rises since the global financial crisis, have added to these pressures.



So, while complaints about a cost of living crisis may in some respects appear hysterical, this is not to overlook cost pressures altogether. One point of discrimination is useful. There is no doubt that any rise in the cost of living is felt most keenly by those on low incomes, who tend to spend a higher proportion of their income on the necessities of life (QCOSS, 2011). But it is a stretch to suggest that middle and higher income earners are subject to the same stress in an objective sense – that there is a generalised cost of living crisis that is impinging upon people’s quality of life. It beggars belief that some newspapers can seriously suggest times are tough even for households with an income of \$150,000 (a level that places a household among the top 15 percent of Australian households). To give some sense of the difficulty in claiming this, the median household income in Australia for 2007-08 was \$67 000 – less than half of \$150 000 (ABS, 2009b). Quite simply, there can be no meaningful sense in which middle- and higher-income households in Australia have experienced intolerable rises in the cost of living.

**Box 1.1 A sample of cost of living headlines in newspapers, 2011**

***Carbon tax the last straw for battlers as cost of living spirals out of control***  
 Courier Mail, 14 July 2011

**Rising cost of living: Aussies under stress**  
 The Advertiser, 29 June 2011

**Rate fears as cost of living hits new high**  
 Sydney Morning Herald, 28 April 2011

**Raw deal on cost of living**  
 Daily Telegraph, 4 June 2011

**Families relying on emergency handouts as cost of living increases**  
 Herald Sun, 31 May 2011

**Cost of living goes up, up ...**  
 The Age, 17 May 2011

**Struggling nation pleads for mercy**  
 Daily Telegraph, 10 May 2011



## 2. Household consumption and lifestyle patterns

The feelings of middle- and higher-income households about the cost of living raise some obvious questions. If changes in cost of living are broadly tracking recognised measures of inflation, and if incomes are also rising, why do so many members of middle Australia believe that they are struggling? Such sentiments are connected with a widespread cultural anxiety about an Australian quality of life (Soutphommasane, 2011). Concern about the costs of living represent a nervous feeling that an Australian lifestyle characterised by ease of living is no longer attainable. There is a gnawing feeling that the good times are over.

Expectations about a decent standard of living have certainly been ratcheting up. Amid a long uninterrupted period of economic prosperity, Australians have grown accustomed to living in material comfort and luxury. An entire generation of Australians have grown up without experiencing a recession. Larger homes, with bigger floor plans, ensuites and spare bedrooms, are becoming the norm. In short, the conditions for continuous material expansion and acquisition have been taken for granted. They have been regarded as an entitlement of belonging to Australian society.

Household residential and consumption patterns, though, will clearly have an impact on the cost of living. If people are living in larger homes, furnished with more electrical appliances and creature comforts, this will obviously contribute to larger bills and expenses (especially as recent cost of living rises have encompassed disproportionate increases in utility costs such as electricity). Similarly, if people are consuming more goods and services, sustaining their expected standard of living will be more difficult. Similarly, if people are consuming more goods and services, sustaining their lifestyles will be more difficult.<sup>4</sup> Struggles with the cost of living are, in part, products of attitudinal changes.

Economic prosperity may in fact heighten people's exposure to even modest increases in the cost of living. This may explain why so many Australian households on middle- to high-level incomes are not immune to feelings of economic stress, despite economic growth and low unemployment. One measure of this is the increasing size of Australian homes. A study conducted by CommSec shows there has been a significant increase in the average floor area of Australian houses in recent decades (CommSec, 2009; Figure 2.1). Australian homes (which includes houses as well as apartments) are now on average the largest in the world in terms of floor size at 214 square metres – more than double the average floor area of homes in Ireland and Sweden, and close to triple the average in the United Kingdom (Figure 2.2).

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<sup>4</sup> It is important to distinguish between price effects (i.e. price rises) and volume effects (i.e. consuming more). The point here is that vol-

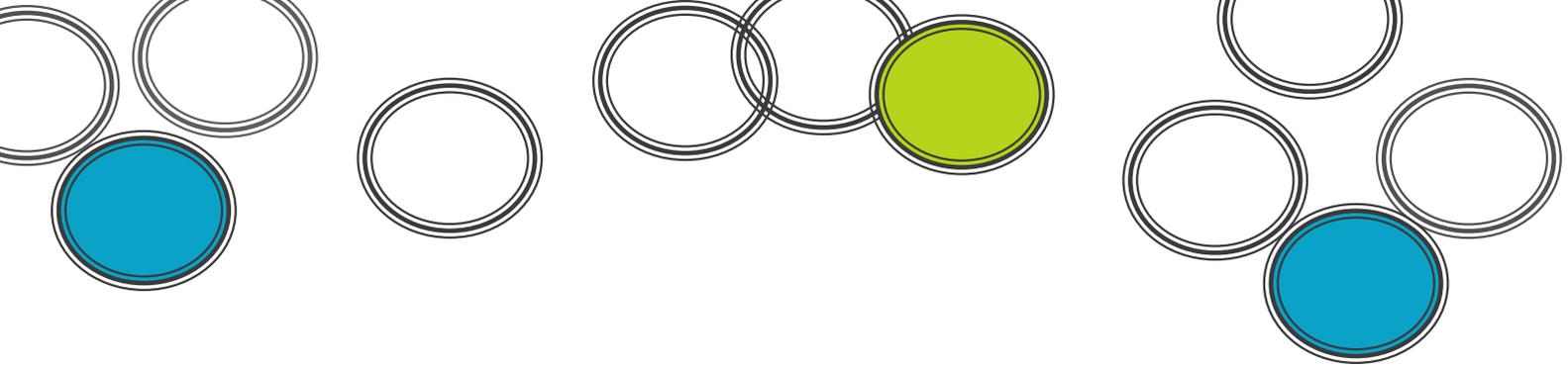


**Figure 2.1 Increases in the size of Australian houses**

Source: CommSec, 2009

**Figure 2.2 International average sizes of new homes, 2009**

Source: CommSec, 2009



Levels of household consumption also exhibit an upward trend. This is, of course, characteristic of any society that experiences economic and material progress. It is a measure of increased wellbeing that people have the means to consume more goods and services to satisfy their needs and wants. Still, it is worth noting the significant increase in households' consumption spending items on such as communication services, goods for recreation and culture, and personal effects (Table 2.1 and Figure 2.3) over the last two or so decades. Household consumption has experienced particularly strong growth between 1992-93 and 2005-06, coinciding with a period of sustained economic growth experienced. Real household consumption expenditure per capita increased by 2.6 percent a year during that time compared to 1.9 percent a year between 1960-61 (ABS, 2007). Among other things, such consumption increases have been reflected in the proliferation of electronic goods such as mobile phones, personal computers, dedicated games consoles and DVD players.

**Table 2.1 Components of household final consumption expenditure per capita**

	Expenditure per capita, 1985-86	Expenditure per capita, 2005-06	Expenditure as percentage of net national disposable income (2005-06)	Total change between 1985-86 and 2005-06 (%)	Avg annual change (%)
Communication services	176	777	3.0	341.0	7.7
Goods for recreation and culture	303	1 219	4.7	302.4	7.2
Insurance services	360	834	3.2	131.7	4.3
Personal effects	97	212	0.8	118.5	4.0
Transport services	295	613	2.3	107.3	3.7
Purchase of vehicles	544	1 008	3.9	85.4	3.1
Recreational and cultural services	882	1 606	6.2	82.1	3.0
Imputed rent for owner occupiers	2 140	3 290	12.6	53.7	2.2
Actual rent for housing	704	1 072	4.1	52.1	2.1
Health	903	1 313	5.0	45.3	1.9
Electricity, gas and other fuel	403	532	2.0	32.0	1.4
Food	2 597	2 800	10.7	7.8	0.4

Source: ABS, 2007, 'Trends in Household Consumption'



Figure 2.3 Changes in consumption expenditure, 1985/86-2005/06

Source: ABS, 2007, 'Trends in Household Consumption'

What is often forgotten is that increased consumption spending has secondary effects. If, for example, a household should purchase an additional television set or fridge, or an additional personal computer, or a split cycle air-conditioner, this will create added expenditure burdens. Households that use a panoply of electrical goods will, other things being equal, consume higher levels of electrical power. The effects of this cycle of consumption should not be underestimated (as Figure 2.4 demonstrates with respect to the growth over time in household electricity consumption with respect to televisions, and as Figures 2.5 and 2.6 demonstrate with respect to per capita consumption of electricity).

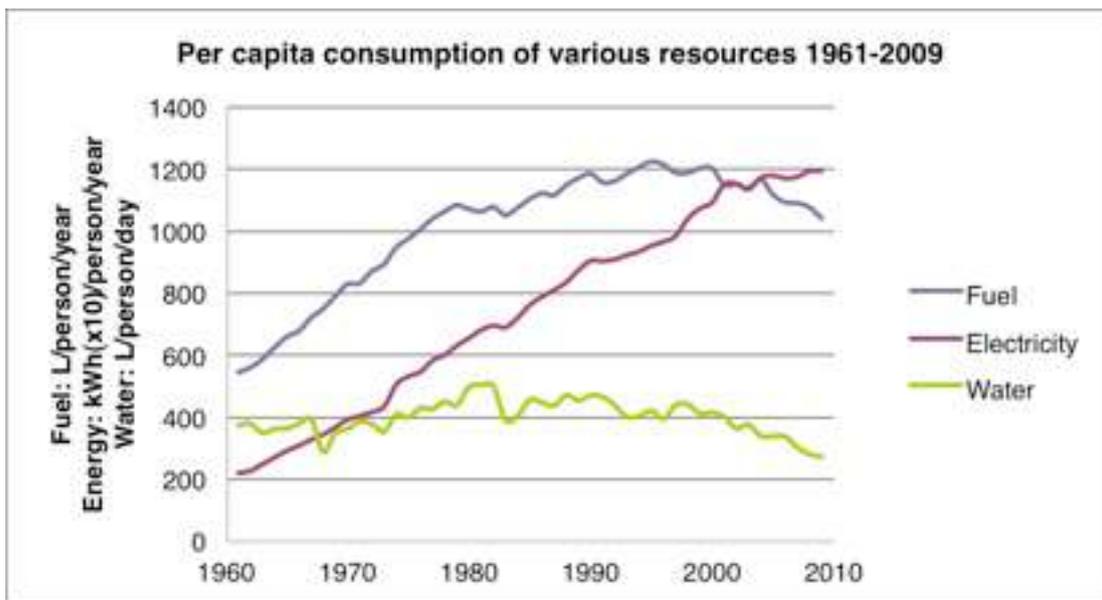
The trend of larger homes reinforces higher household consumption patterns. Larger homes will inevitably be more hungry for power. Houses in new suburbs in metropolitan fringes, for example, will typically consume much higher levels of electricity as homes in inner-city suburbs consisting mainly of apartments. It makes a difference to one's electricity bill whether one lives in a large four-bedroom, two-storey house or in a smaller two-bedroom apartment. This is an obvious, yet frequently unacknowledged, effect of material prosperity: a more comfortable lifestyle will involve a higher cost of living.



Figure 2.4 Average household consumption of on-mode electricity for televisions

Source: Department of the Environment, Water, Heritage and the Arts, 2008

Figure 2.5 Per capita consumption of various resources, 1961-2009



Source: Sachdeva and Wallis, 2010

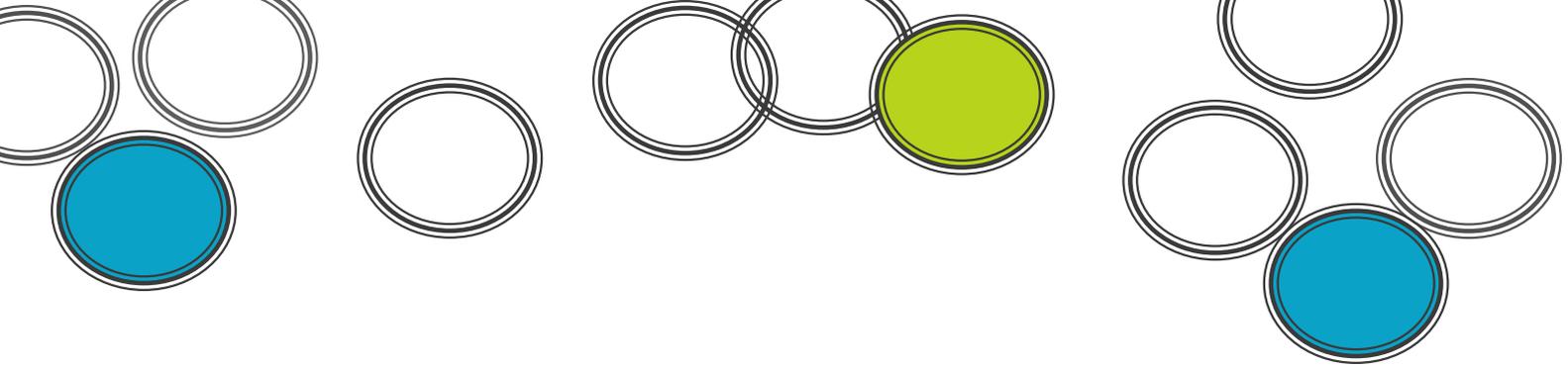


Figure 2.6 Index of per capita consumption of various resources, 1961-2009

Source: Sachdeva and Wallis, 2010

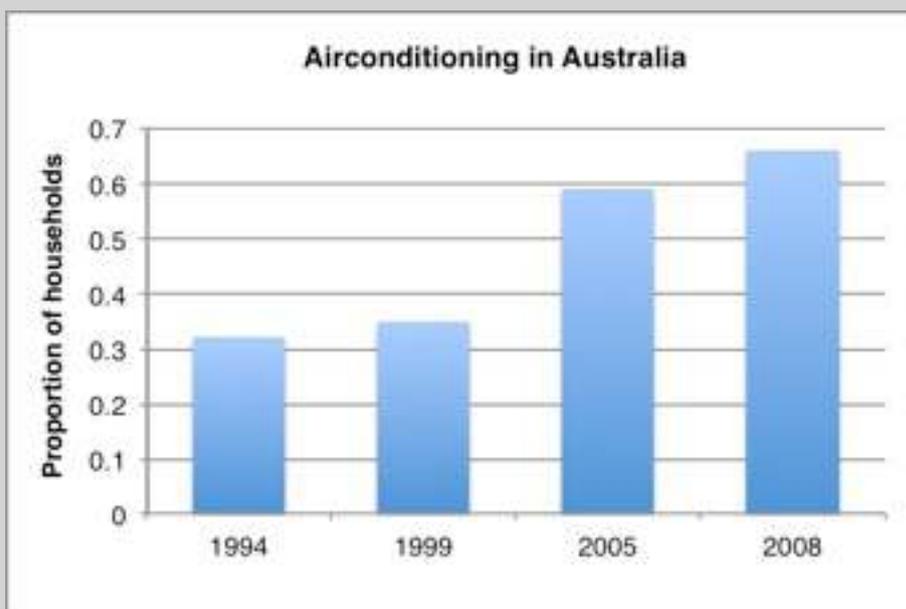


**Box 2.1 The case of air-conditioning and electricity prices**

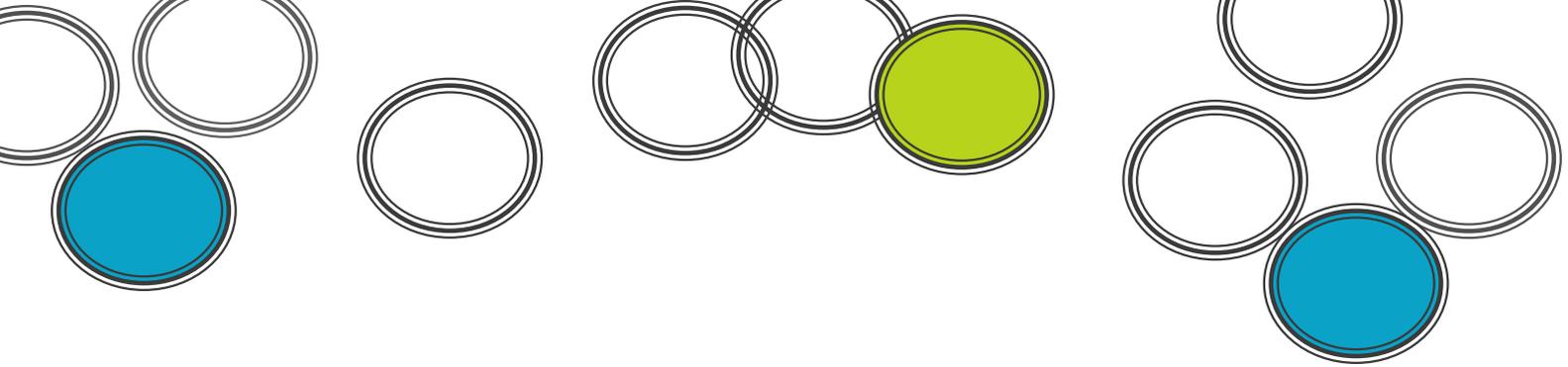
Throughout the 1990s roughly one-third of Australian households owned an air-conditioner. This figure doubled in the last ten years, catching electricity providers unaware and unprepared. The problem with airconditioning is its outsized effect on the electricity grid. As Phillip Lowe, deputy governor of the Reserve Bank, has noted, ‘The major price increases that we are experiencing at the moment for electricity’ is a result not only of greater demand but also ‘the spikiness of electricity demand’. For much of the year air-conditioners remain dormant until, like a volcano, they erupt on hot summer days, accounting for as much as half the total system demand at its peak. Says Lowe: ‘We have not built enough transmission infrastructure to deal with those spikes. So the electricity authorities are having to spend a huge amount of money building the transmission or rebuilding and repairing and expanding the transmission network.’

This is corroborated by one study of electricity use and demand in Victoria by the Monash Sustainability Institute (Sachdeva and Wallis, 2010: 8):

Provision of electricity during periods of peak demand costs significantly more than base demand because more expensive generators, such as gas-fired or hydroelectric power stations, are required to meet demand. Analysis of price and demand in the National Electricity Market (NEM) indicates that a very small amount of electricity demand (0.29 percent – about 25 hours of the year) accounts for nearly 18 percent of the total wholesale cost of electricity annually, averaged over 2001 – 2009.



Source: ABS, 2008



### 3. What is the role of the state?

The Australian public has high expectations about government alleviating cost of living pressures for households. At the very least, there is an expectation that the state should ensure that all citizens have the means to enjoy a civilised standard of living. Perhaps the first institutionalised expression of this came in the form of the Harvester Judgment of 1907, recognised as the foundation-stone of what scholars have called ‘the wage-earners’ welfare state’ (Castles, 1985). In the words of Justice Henry Bournes Higgins, the state has a responsibility to ensure that any collective agreements between employer and employees must involve a ‘fair and reasonable’ wage. Interestingly, Higgins made an explicit reference to ‘the cost of living as a civilised being’ in how framers of any agreement should determine workers’ pay (*Ex parte McKay*, 1907).

Few Australians would dispute that the state should rightly perform this role. But it is important to clarify the nature of this duty owed to citizens by states.

In one respect, we may understand it as a duty of liberty. If it is the role of the state to ensure that citizens enjoy liberty, this duty should arguably encompass more than merely liberty in its negative sense (being free from external interference); it should also include what various philosophers refer to as ‘real’ or ‘substantive’ freedom (Sen, 2009; Van Parijs, 1997). It is not enough to refer to the existence of liberty in a particular case if someone cannot exercise it in any meaningful way. Paupers are not truly free to dine at a Michelin starred restaurant, even if they are free from external coercion to enter it. Citizens do not really enjoy their liberty to pursue their idea of a good life, even in the absence of constraints, if they do not possess a basic level of resources to carry out their will.

The guarantee of some basic standards or resources may also be explained in terms of a duty of justice and the rights of citizenship. In a liberal democratic community, justice requires that citizens have an equal right to basic liberties compatible with a similar liberty for others. In the context of modern citizenship, such basic liberties have been understood to include civil, political and social rights. As TH Marshall famously explained, social rights go beyond things such as freedom of speech, freedom of association and the right to vote or run for public office. They range, rather, from:

the right to a modicum of economic welfare and security to the right to share to the full in the social heritage and to live the life of a civilised being according to the standards prevailing in the society. (Marshall, [1950] 1992: 8)

Citizenship guarantees that even the least well off person is not left without the economic resources required to participate in the community and live a life of dignity.



Such a role for the state has typically been regarded as relating to *minimal* standards of living. In the case of the Harvester Judgment – an Australian precursor to Marshall – the duties of a civilised community merely extended to guaranteeing that wages would be sufficient to provide the average Australian worker with ‘proper food and water, and such shelter and rent’, consistent with ‘a condition of frugal comfort’. However, in his judgment Higgins *did not* include the following items in his calculation of a minimum living wage:

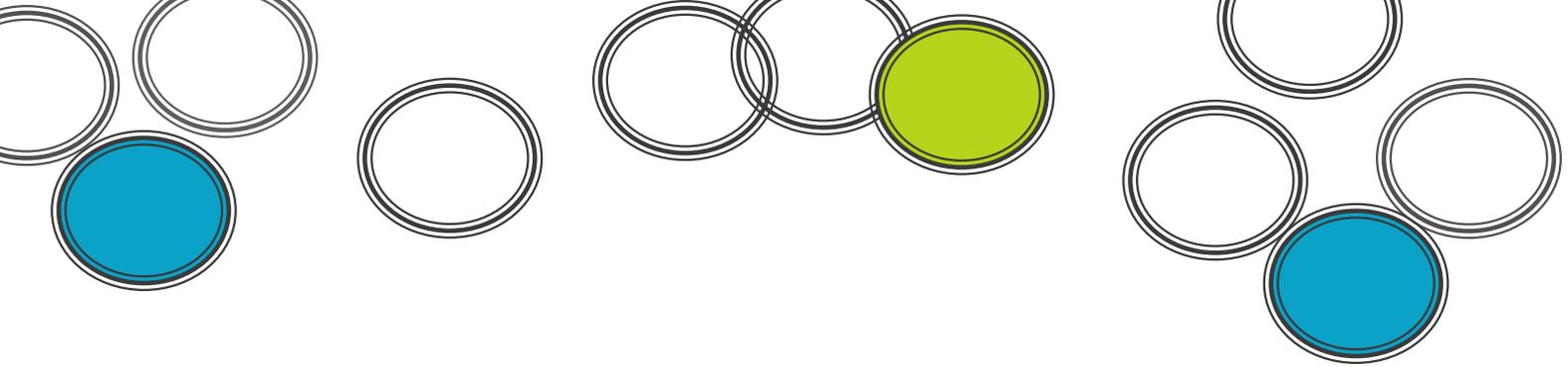
light, clothes, boots, furniture, utensils, rates, life insurance, savings, accident or benefit societies, loss of employment, union pay, books and newspapers, tram and train fares, sewing machine, mangle, school requisites, amusements and holidays, intoxicating liquors, tobacco, sickness and death, religion or charity. (*Ex parte McKay*, 1907)

In more recent times, citizens’ expectations of the state have involved more than just the guarantee of a certain minimum. It is believed that the state must also guarantee a comfortable standard of living, beyond merely ‘frugal comfort’. Political posturing from both major parties in Australia on kitchen table economics has encouraged this. Then opposition leader Mark Latham was an early exponent of this new politics during the 2004 election campaign when he promised to ‘ease the squeeze’ on middle Australia. It was not until 2007, though, that this stratagem was perfected. In the lead-up to that year’s election, then Opposition Leader Kevin Rudd campaigned relentlessly against John Howard on the rising cost of living and the lack of housing affordability. To Rudd and Labor’s benefit in 2007, many Australians did not believe that the economic prosperity of the time translated to better personal economic circumstances.

All this has had the following effect: people’s perceptions of their own financial wellbeing have been increasingly divorced from the state of the economy more generally. Thus, despite Australia’s enviable economic position compared to other OECD countries – most of which either remain in recession or are only crawling to recovery – many believe today that they are ‘doing it tough’. This explains why Opposition Leader Tony Abbott’s relentless attacks relating to the cost of living have proven so politically effective. It has now become an iron law in our politics that politicians must pledge to ease the pressures around the cost of living.

There is, some would say, another historical or ideological reason, a more historical or ideological reason why Australians have such high expectations of the state. Australia remains defined by a Benthamite political culture, which understands the state in utilitarian, materialistic terms. As the historian Keith Hancock wrote in 1930, we tend to view the state as ‘a vast public utility, whose duty is to provide the greatest happiness for the greatest number’ (Hancock, 1930: 72). Australians, in other words, have historically understood the state’s role as a guarantor of a comfortably high quality of living. Although Higgins’s Harvester Judgment was undoubtedly an influential statement of a strand of Australian liberal political culture, there have been equally powerful utilitarian-statist attitudes.

The debate about so-called middle class welfare underlines this. The apparent public backlash against the federal government’s decision earlier this year to freeze family tax benefit payments to households earning more than \$150,000 highlights a new sense of entitlement in Australian attitudes. Many middle-income households believe they should receive government transfer payments that assist with the cost of raising a family – most notably, in the form of family tax benefits. Some conservatives argue that governments are justified to provide benefits to households earning about \$150,000, even though an annual income of \$150,000 would place a household among the richest 15 percent or so of Australian households (and would be roughly twice the level of



the median equivalised household income for a two-parent, two-child household income, and more than twice the level of the median household income, as illustrated in Figure 3.1). They regard social assistance of this kind as legitimate since there are 'good policy reasons to encourage families' among middle-income earners. The absence of such assistance, it is argued, could lead to only high-income and low-income households having children (Henderson, 2011). This conservative and moralistic understanding of social policy shifts the guiding value of welfare from need to desert. Middle-income families, the logic goes, *deserve* government assistance, regardless of whether they might actually *need* it.

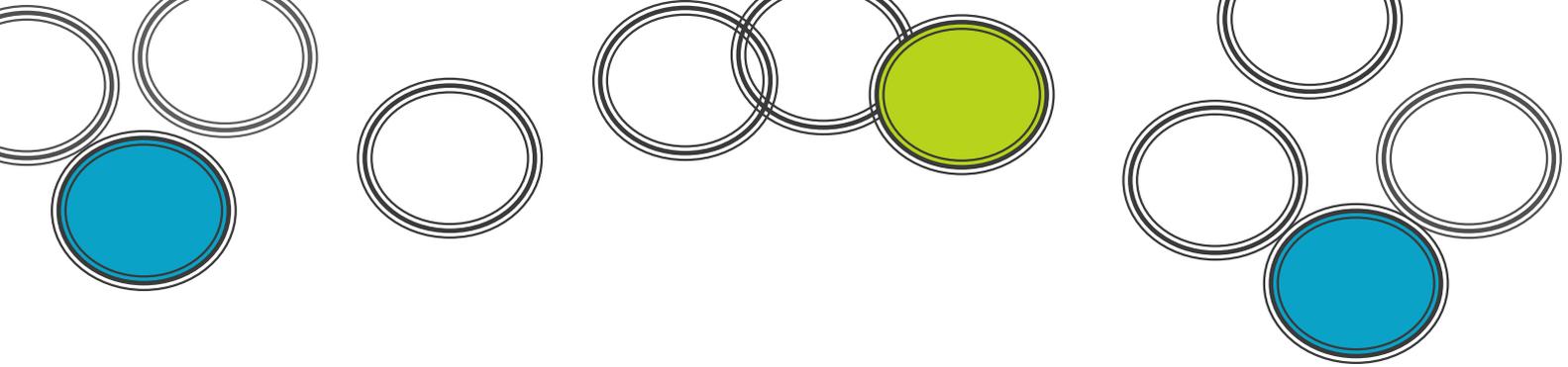
**Figure 3.1 Australian gross annual household income, 2007-08**

Source: ABS, 2009b

An Australian welfare state has historically, however, been guided by the principle of need and equity. In the parlance of social policy scholarship, the Australian welfare system has been 'liberal-residualist' in character (Esping-Andersen, 1990). It has aimed to provide a safety net for citizens who, by virtue of illness or unemployment, cannot participate fully in the life of the national community. With our system of income- and asset-tested payments funded from general taxation revenue, Australian social assistance has never reflected a generous and universalistic welfare state. Indeed, it cannot be of such form unless Australians are prepared to pay much higher taxes to support a Nordic-style social democracy. (Even many Australian social democrats would demur to adopting Nordic social democracy as a template without attention to local historical conditions.)<sup>5</sup>

The most recent data on social spending in OECD countries helps put the Australian way into context (Figure 3.2). In 2007 Australia spent 16 per cent of GDP on cash benefits compared to an OECD average of just over 19 per cent. Moreover, the Australian welfare system is highly 'target efficient', directing a greater share of social benefits to lower income groups than any other country in the OECD. The poorest 20 per cent of the population receiving nearly 42 per cent of all social spending, with the richest 20 per cent receiving only around 3 per cent (OECD, 2007).

<sup>5</sup> For a recent discussion of how liberalism should inform Australian social democracy, see Soutphommasane, 2010.



It is only right that the state should prioritise need over desert. To use Higgins's language in the *Harvester Judgment*, the role of the state in Australian society should be to guarantee that all citizens are able to live in frugal comfort, not that all can live in material luxury. As this applies to cost of living, the state has especially strong reasons to make targeted interventions to alleviate cost of living burdens, where they begin to impinge upon the ability of the least well-off. It stands on weaker justificatory ground when interventions are not so well-targeted, and resort to questionable – that is to say, highly contested – notions of moral desert. In terms of principle, the state simply should not seek to address cost of living pressures as a matter of course. Insofar as political economy is concerned, its priority should lie instead in ensuring a background of long-term economic stability and social justice through market design, investments in human capital and infrastructure, and prudent macroeconomic demand management (see Hetherington and Soutphommasane, 2010; Foster and Hetherington, 2010). In more practical terms, as the evidence outlined in Section 1 highlights, it is highly questionable whether there is a real, generalised cost of living crisis. The problem is largely a product of higher expectations concerning lifestyle.

In very practical terms, moreover, there is only so much that the state in a liberalised market economy can do to control the cost of living. Many of the factors that determine prices are simply beyond its control, short of a command economy; even then, there is no reason to believe that such a scenario is desirable. There is a need to circumscribe the role of the state on such matters to guaranteeing a certain minimum standard of living for all citizens. The state should not be moved to protect or subsidise lifestyles that are attained by living beyond one's means. For it to do so would corrupt the proper role of the state, which is to ensure the conditions of a fair and civilised society: equal opportunity, public goods, assistance in time of hardship. The state should not be beholden to the complaints of the profligate.

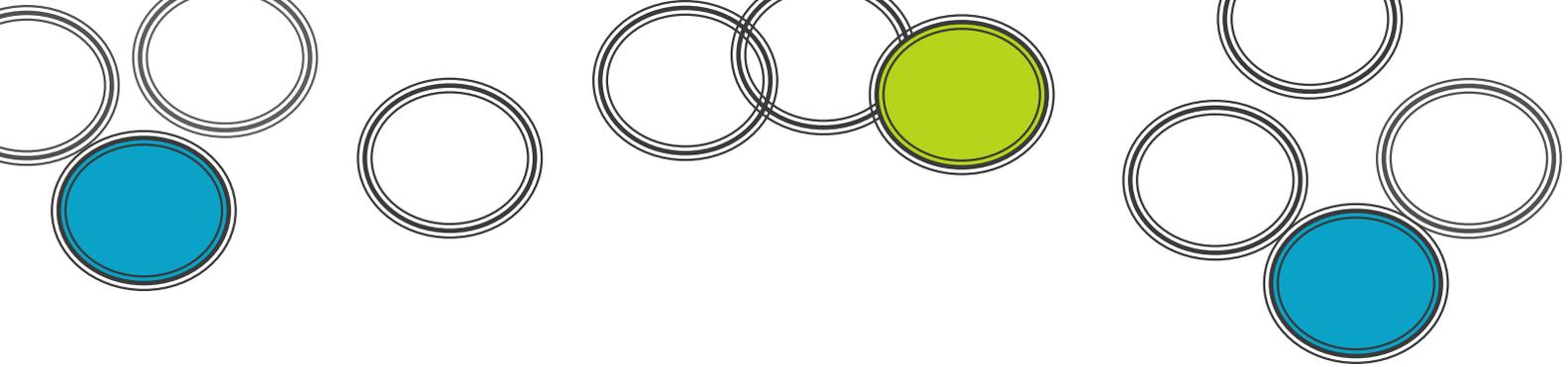
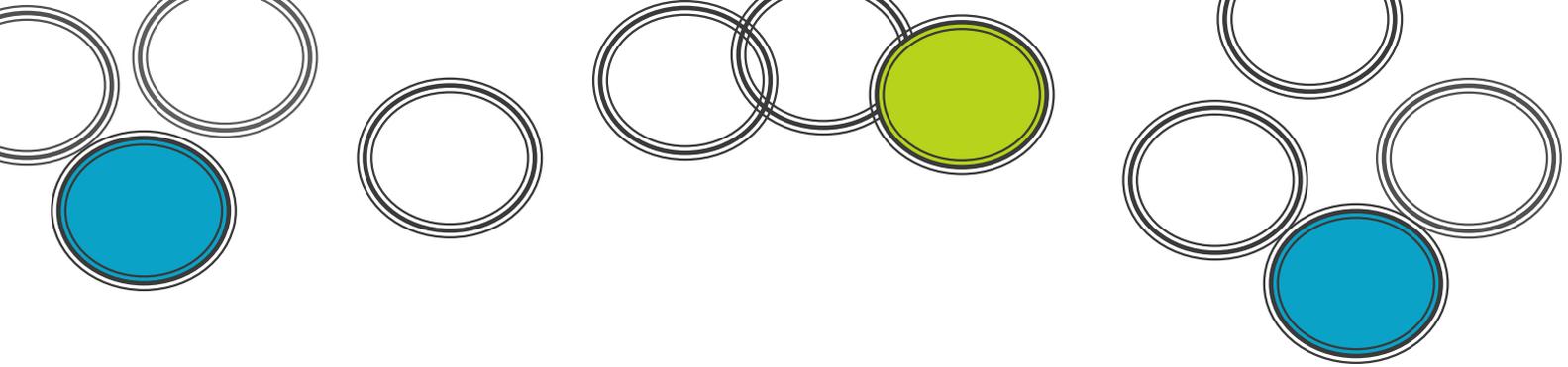


Figure 3.2 OECD social spending

Source: ABS, 2009b



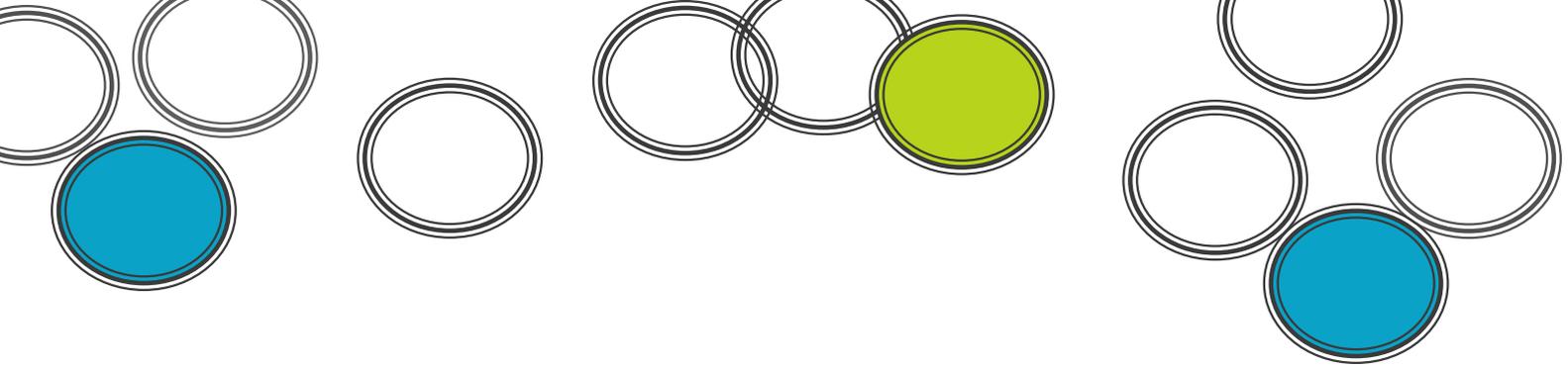
## 4. A medium-term policy agenda

There are obvious short-term steps that governments can take to address a rising cost of living, real or perceived. Cash handouts, excise or tax freezes, and subsidies can all make immediate contributions to households. The introduction of a carbon price by the Gillard government, for example, will be accompanied by \$15 billion compensation package to households, in light of estimates that the tax will see an average household's cost of living rising by about \$10 a week (with electricity prices rising by an estimated \$3.30 a week). Yet, these are considered as at best *ad hoc* responses to cost of living concerns. Ongoing anxiety about the cost of living, which exist *in spite* of evidence showing that Australian household affluence suggests that government policy may need to address the often unhealthy expectations many Australians seem to have about prosperity and the role of government.

A medium-term agenda concerning the cost of living would focus on encouraging individuals and households to adopt more sustainable consumption and lifestyle patterns. In this sense, cost of living issues should be regarded as implicating not merely economic questions of living standards, but broader philosophical questions about quality of life and wellbeing. To be sure, it is only natural that any rise in the cost of living will be met with some measure of concern. Most troubling about the current state of anxiety is that any rise in the cost of living is not placed in context. It is one thing for there to be generalised concern about rising costs if they should be outstripping rises in incomes or if unemployment levels are climbing. It is another for this to be the case when even statistical measures in the cost of living are broadly tracking inflation (e.g. CPI), when incomes have been rising, and when unemployment is barely 5 per cent. A level-headed assessment of the matter must, in any case, involve some reflection upon whether material gains in the standard of living may contribute to a greater cost of living burden. If households should be pursuing more expansive lifestyles beyond frugal comfort, is it the responsibility of the state to take up the slack to ensure it is affordable?

These attitudinal changes in lifestyle expectations have been reinforced by one other factor. There remains a disjunction between our growing population and our cultural preference for low-density, suburban living. It has long been the Australian dream to own a detached house on a spacious block of land. While some argue that this demands that we opt for population stabilisation over population growth, this is not a desirable option: moderate population growth is a necessity in a society with an ageing population; immigration injects dynamism into any society. What is required, rather, is a significant shift towards greater density in our cities, supported by investments in infrastructure and public services. As earlier parts of this paper highlighted, although cost of living pressures are easily over-stated, where they are present they have been primarily associated with utility costs, particularly electricity, and with the trend in Australia towards larger homes. Furthermore, as infrastructure development has failed to keep pace with rapid urban sprawl, households in the outer suburbs become overly dependent on cars, as opposed to public transport.

Better urban planning, centred on encouraging more medium density living in our major cities, must be a central component of any medium-term policy agenda on the cost of living. Admittedly, there remains, a concern that such a shift may impinge upon a distinctive Australian quality of life, imposing on Australians an unwarranted sacrifice. Yet, as was argued in *What Crisis?*, it is important not to understand that any notion of quality of life simply in terms of lifestyle but rather in terms of wellbeing (Soutphommasane, 2011). Greater density in our cities

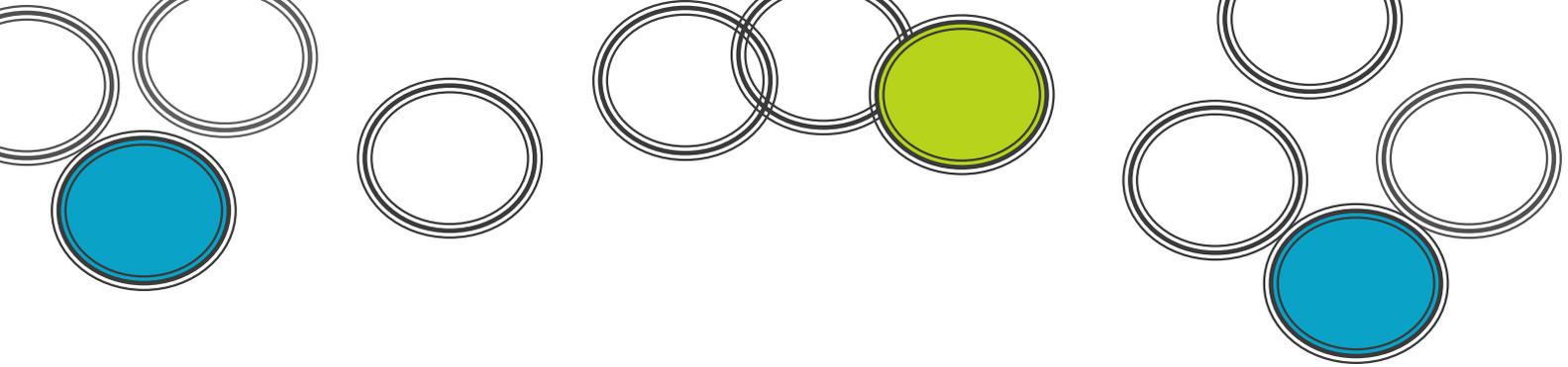


and suburbs can deliver improvements in the quality of life and wellbeing: higher density can contribute, for example, to greater economic dynamism, social cohesion and cultural vibrancy. Among the cities consistently rated the most livable in the world, just about all have significantly higher population density than major Australian capitals such as Sydney and Melbourne (see Figure 4.1). Vienna, rated as the world's most livable city in Mercer's annual Quality of Living Survey (Mercer, 2010), has a density that is double that of Sydney (4000/sq km compared to 2000/sq km). Vancouver, rated by the Economist Intelligence Unit as Number One in 2010 and Number Three in 2011 (Economist Intelligence Unit, 2010, 2011), is almost three times more densely populated than Melbourne (5300/sq km compared to 1500/sq km). There can be considerable diversity in what

**Figure 4.1 Urban density in the world's 'most liveable cities'**

Source: Mercer, 2011

It is by no means an exercise in reducing people's quality of life if government should encourage more Australians to live in medium density environments. Australians are indeed becoming increasingly amenable to medium-to-high density cities. Two separate reports by IPSOS-Mackay and RAMS Home Loans suggest that younger Australians are just as happy to live in a smaller home such as an apartment or townhouse as they are to live in a large, detached, outer-suburban home (Finney, 2011). To ensure such preferences can be supported, however, governments must ensure there are adequate investments in infrastructure and services in our cities – particularly to achieve greater public transport availability. But were more Australians to factor into their decision-making that larger homes carry significantly larger utility burdens, and that a decent quality of life is attainable even in medium-density settings, there may be more realistic and proportionate public responses to cost of living issues.



#### **Box 4.1 Some policy initiatives on cost of living**

##### **a. Provide incentives for more modestly sized homes via First Home Owners Grant**

All state and territory governments currently offer a First Home Owners Grant of up to \$7000. This one-off grant should only be made available to those buying homes of a size under a particular floor area (e.g. 120m<sup>2</sup>). As noted above, new Australian homes rank as the biggest in the world. This is a factor that contributes to people entertaining unsustainable lifestyle habits, which in turn feed cost of living hysteria. The bonus could be delivered on a sliding scale with a larger grant being given to those who choose to live in homes with more modest floor areas.

##### **b. Reform family tax payments**

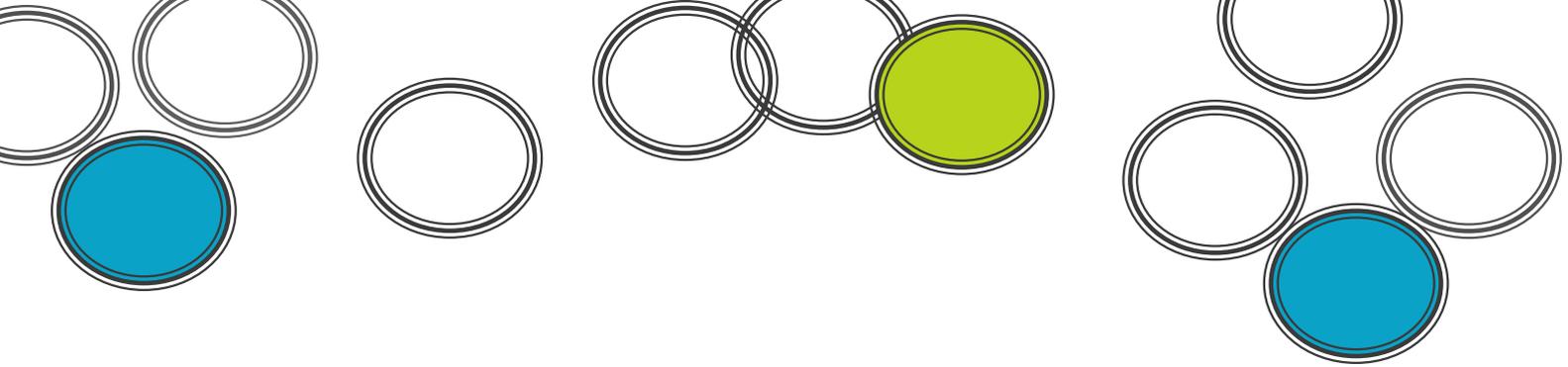
The family tax benefit system can play a positive role in redistributing income to those households most in need, accounting for the extra costs of raising children. However, the progressive nature of the system can be improved. While the government has already this year moved to freeze the income threshold for Family Tax Benefits, it should move more boldly to ensure that welfare support is given only to those most in need. The current Family Tax Benefit Part B, which can be claimed by households whose primary earner has an annual income of up to \$150,000, is not sufficiently well-targeted and is an egregious example of middle-class welfare. The Part B benefit should be abolished.

##### **c. Introduce real-time pricing and smart meters for electricity usage**

As noted in Section 2, spikiness of electricity demand is a major contributing factors to higher electricity prices. Provision of electricity during peak demand periods, for example on hot summer days when households and offices turn on air conditioning, is responsible for a disproportionately high percentage of total wholesale costs of electricity. The introduction of real-time pricing – ensuring that electricity prices respond to real-time demand, as opposed to traditional fixed pricing of electricity – may help mitigate this. By ensuring more accurate price-signals to consumers, which reflect underlying wholesale costs, real-time pricing can help shift greater electricity demand to off-peak periods and therefore avoid the need for additional generation capacity, which is significantly more expensive than base-load supply (Sachdeva and Wallis, 2010). Real-time pricing can be combined with the provision of ‘smart meters’ to households and small businesses. This is currently being introduced in Victoria, but should be introduced nationwide.

##### **d. Integrate financial literacy into the Australian Curriculum**

Encouraging personal financial responsibility is essential. The most effective way to educate citizens about financial matters is to incorporate financial literacy within the existing curriculum. Classes in mathematics, English, science, ICT, civics and citizenship, and studies of society and the environment currently include consumer and financial literacy components. This cross-curriculum approach should be maintained and strengthened.



## Conclusion

Popular concern about the rising cost of living in Australia has at times reached hysterical proportions. A sober assessment, incorporating a broad survey of economic wellbeing, reveals that Australian households have in fact never had it so good. There is little cause for complaint about a generalised cost of living crisis. Rises in the cost of living have been broadly consistent with rises in consumer prices, although increases in utility bills have been felt sharply by many Australian households.

It should be recognised that any cost of living rises may well expose households on low incomes to economic vulnerability – but this is much less true for those on middle- and higher-level incomes. For much of middle Australia, any cost of living pain felt may be a symptom of an adjustment in household debt and savings levels, and of unsustainable residential and consumption patterns. Australian homes have been growing markedly in size, as has household consumption of electricity. Material prosperity, funded by cheap credit, has exposed many middle- and higher-income households to even modest shifts in the cost of living.

It has been argued that the role of the state in alleviating cost of living pressures must be dictated by the principle of *need*: it is one thing for governments to intervene in order to ensure that the poorest and weakest in a society enjoy adequate resources so as to participate in the life of the nation; it is another thing altogether for governments to subsidise lifestyles that go well beyond frugal comfort. A medium term agenda on the cost of living should not focus specifically on cost of living as such. Rather it should concentrate on ensuring long-term economic stability accompanied by social justice, and encouraging more sustainable expectations about lifestyle and quality of life.



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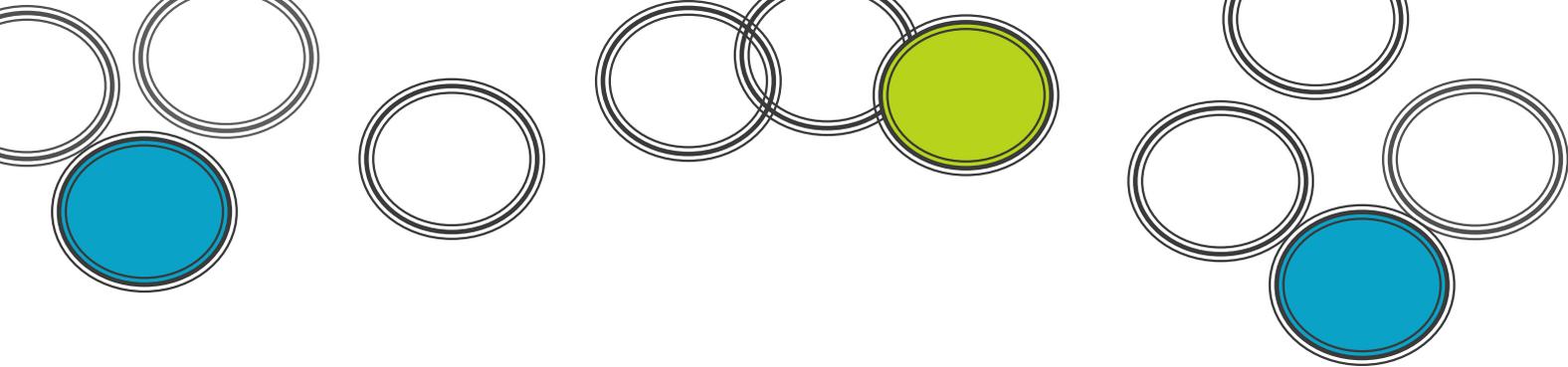
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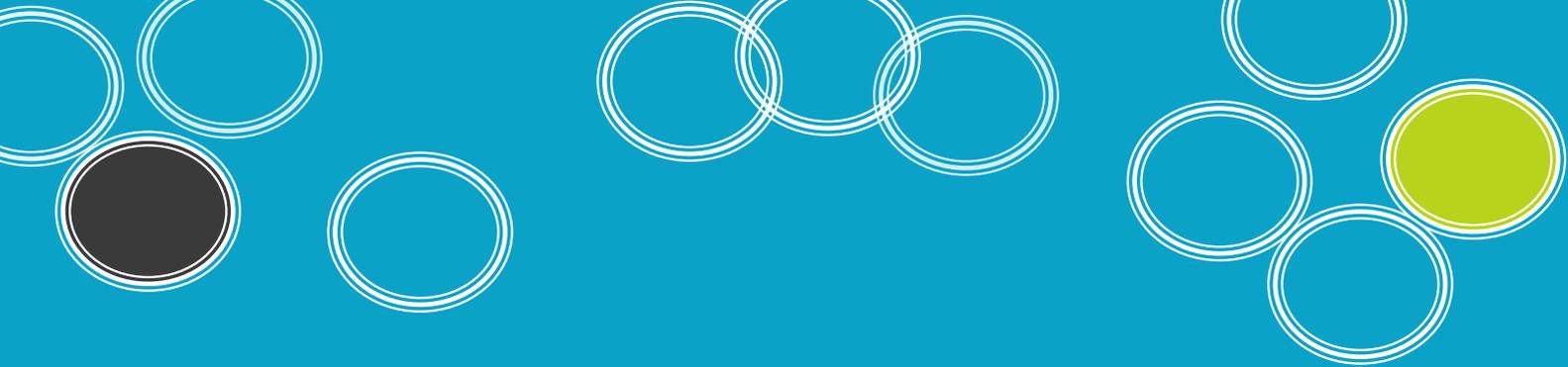
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