Goodbye to glory: Theresa Gattung, Kerry Prendergast and Witi Ihimaera on falling from the sk

NORTH & SOUTH

The Great Kiwi Rip-off

Why we pay such a high price to live in New Zealand

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+ Cover story

The Great NZ Rip-off

Economies of scale, globalisation, the exchange rate – they're the usual suspects for "sticky prices" – but do they really explain your escalating shopping and utilities bills? Chris Barton reports.

Something's rotten: Shakespeare's summation of the sorry state of affairs in Hamlet's Denmark acquires new and local resonance as you contemplate your latest, ruinous supermarket shopping bill. How can it be, as *Campbell Live* pointed out in February, that a shopping basket of 20 comparable items bought at Tesco in the United Kingdom is 35 per cent (or $71) cheaper than a basket bought at Countdown here? How is it that a 500g block of cheese sells for $10.15 at Countdown, but at Tesco it's just $6.22 – 38.7 per cent cheaper? We make the stuff here, for goodness' sake, in vast quantities and very efficiently.

By now we can all recite the explanations: world prices, economies of scale, the exchange rate, globalisation. Mustn't grumble.

It just doesn't add up. Take the exchange rate. The New Zealand dollar has been at record highs against the American dollar, the pound and the euro for a few years now. It's true consumers have seen some benefits in cheaper imports: flat-screen TVs, for instance, that were selling for around $2000 in 2009 plummeted to around $800 in early 2012. Today, they're even cheaper. But the good news doesn't apply across the board.

Exhibit A: Dr Oliver Hartwich's new Yamaha keyboard. It was to replace the one damaged in transit when he swam against the migration tide by relocating from Sydney to Wellington. Shocked by New Zealand prices, the executive director of the New Zealand Initiative think tank found the same keyboard in his native Germany was about a third cheaper. Even adding on freight, the import transaction fee, GST and a biosecurity levy – an additional $446.52 – he still came out ahead to the tune of $1000. "About a quarter cheaper," says Hartwich. "That didn't make sense to me."

Other prices don't make sense either:

• Rod Stewart's autobiography (paperback) costs $29.99 at Whitcoulls and £5.99 ($11.19) at amazon.co.uk.

• A new Mercedes E-class sedan costs at least $109,900 here (excluding on-road costs) while the on-road price for the same E250 CDI model is £36,590 ($68,420) in Britain.

• Shoe Connection here sells Timberland 7 Eye Chukka boots for $229.99 a pair. At amazon.com they are $US89.95 ($106.79).

What gives? The high dollar certainly hurts manufacturers, but there should be winners, says Hartwich. "We don't seem to win."

He guesses that prices are just "sticky", with exchange effects slow to filter through as retailers hedge their bets, but concedes, "That's only a weak explanation. The dollar has been high for three or four years now – at some stage it should feed through."

CHRIS BARTON IS A *NORTH & SOUTH* CONTRIBUTING WRITER.

TOAKI OKANO

MINICHAMPS CAR COLLECTION MERCEDES BENZ R CLASS FROM HOBBY CITY, 62 LUNN AVE, MT WELLINGTON, AUCKLAND.

GETTY

This retro-styled American diner menu was photographed in 2011. Many US visitors to New Zealand are astonished by our restaurant and fast-food prices – and this menu shows why.

Puzzled, Hartwich talked to economist friends. "They said it could be the market is not really big enough here, that there's not enough competition, maybe we're lacking scale – but it doesn't quite satisfy me, really."

We know the feeling, Oliver. Something's just not right.

If a top-flight economist like Hartwich can't explain what's going on, what hope is there for the rest of us? The mysteriously sticky prices are also only half the story. Measuring one's cost of living in terms of power tools from Bunnings, whiteware, mobile phones and computers recognises only the "traded" goods side of the market. "The flipside is things like electricity, gas, banking services, telecommunications and housing are non-traded," says a senior associate at Victoria University's Institute for Governance and Policy Studies, Dr Geoff Bertram. "They don't face the world market price. We call them sheltered sectors as distinct from exposed ones."

It's this non-traded sector, says Bertram, that's the main culprit for our high cost of living – largely because since about 1990, it's been left unregulated, the rationale being that competition would keep things in check. Sadly, as Bertram sees it, competition in this sector is largely non-existent. With no regulation, the companies running the show have a captive market and can pretty much raise their prices at will.

"Regulation was always missing," says Bertram, "not only in electricity, gas and other utility services, but also in the financial sector and housing.

"Financial services roared away and the housing market was allowed to push a long-running bubble, so house prices inflated massively and, with that, a whole set of associated costs."

What's missing in this picture? An official consumer watchdog with teeth. Our Ministry of Consumer Affairs is notable for what it doesn't do: "We don't investigate breaches of the Consumer Guarantees Act," says the ministry on its website. It also doesn't help with breaches of the Fair Trading Act. Enforcing and investigating such violations is the job of the Commerce Commission but it, too, "does not give advice or take civil actions on behalf of the public for compensation".

Mad as hell at being ripped off and wanting to get even? Good luck with that.

The arch-villain is the Commerce Act 1986. "There were no provisions to outlaw price gouging or profiteering at consumers' expense," says Bertram in a chapter in the soon-to-be-released *Evolution of Global Electricity Markets*. "The presumption was that promotion of competition would generally suffice to restrain the use of market power by large firms to transfer wealth from consumers to themselves."

The act also castrated the ability to fight back. "The common-law right of consumers, faced with high prices for essential services, to seek redress through the courts was extinguished."

Cost of living. Such a cold phrase. Living is just, surely, about feeling the sun on your face, laughter at a young child's efforts mastering language, a loved one's warmth, waking up and smelling the coffee... Snap out of it. How do you think that coffee got there? And, as everyone knows, the cost of a decent flat white these days can be extortionate. Living costs. There is no such thing as a free lunch. It's the economy, stupid. Money and clichés make the world go round.

In 1912, the New Zealand Parliament was presented with *Cost of Living in New Zealand*, the result of a three-month royal commission investigation. One hundred years later, history repeats. A huge problem for the 1912 commission was getting informa-

GETTY

That's less than $NZ2 for a medium-sized espresso on this US menu (photographed in 2011) – half what you might pay in New Zealand.

tion – in particular from the Merchants' Association of New Zealand, which refused to give evidence.

"The commission has definite proof that the members of this association have banded together for the purpose of restraining trade in their own interests, and boycotting independent traders." Sound familiar?

The report noted that where the merchants did wrest control of imported and locally produced commodities, increased prices inevitably followed. "In no single instance have they reduced the price of any commodity to the public," said an outraged commission, going on to list a string of commodities with artificially inflated prices – including sugar, soap, matches, Keiller's marmalade, Colman's mustard, Edmonds baking powder, proprietary teas and Highlander milk. Oh, and Robinsons groats and barley.

A similar lack of transparency plagues today's food markets. It's simply not possible to know what margins our two supermarket chains – Foodstuffs and Progressive Enterprises – make on various items. But there is plenty of anecdotal evidence to suggest it's a lot. Hawke's Bay Fruitgrowers Association president Leon Stallard told the *Sunday Star-Times* in February that his apples often retail in supermarkets for 800 per cent more than what he is paid.

The same article quoted an unnamed supplier saying growers typically received about 25 per cent of the retail price of produce, while supermarkets aimed to make a gross margin of about 30 to 40 per cent of the retail price. The supermarkets vigorously denied the claims.

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Similarly, in 2008, when New Zealand consumers were first introduced to runaway dairy prices, former Deputy Prime Minister Wyatt Creech told the *New Zealand Herald* that international pricing wasn't the only driver. Creech said a lack of competition meant prices were higher than they should be. Increases in retail prices – particularly cheese – went far beyond the increases in international prices.

Following the food-chain money – from the cow to the supermarket – Creech revealed significant surplus money sloshing around the system. He could guess who was getting it, but couldn't show proof. So he complained to the Commerce Commission — the only body with the power to force companies to open their books to determine if there is excessive profiteering. That was 2008. We are still none the wiser.

Likewise, a February item on *Campbell Live* asked why the retail price of a bag of organic potatoes was five times the wholesale price. It also compared an identical basket of fruit and vegetables bought at Countdown, Pak'nSave and an independent fruit and veg store. The price difference at the two supermarkets was negligible, but the store was 30-34 per cent cheaper. Why the huge difference? No one can explain.

In the year to January, fruit and vegetables on our food price index increased 5.9 per cent, well above the rate of inflation, which is less than one per cent. Why? Well, kumara were up 98 per cent, apples 21 per cent and avocados 86 per cent – apparently something to do with poor weather conditions and smaller crops.

The statistic led Fight the Obesity Epidemic spokeswoman Dr Robyn Toomath to urge the government to bring down the prices of healthy food. "This is the time of the year when you expect fruit and vegetables to be at their most affordable, but still they're powering on up, and what drives this? Who knows?" she told the *Herald*.

International surveys indicate a trend: New Zealand getting more expensive, particularly in Auckland. But since most of the surveys are based on the American dollar, much of our cities' rise in the rankings can be explained by our high exchange rate (similarly, Australia's strong dollar weighs against Sydney and Melbourne):

- Auckland ranked the 56th most-expensive city in human-resources firm

Mercer's 2012 survey, jumping from 118th a year earlier. That's quite a way behind Sydney, which jumped from 14th a year ago to 11th.

- The Economist Intelligence Unit's 2013 Worldwide Cost of Living survey ranked Auckland as the 19th most expensive city to live in – down from 15th previously. Sydney jumped from seventh to now rank the third most expensive city behind Tokyo and Osaka. Melbourne was fourth equal with Oslo.
- Swiss bank UBS's survey which, as well as measuring the cost of a basket of goods, examines income and purchasing power, had Auckland ranked at 25th most expensive in 2012, a drop of one place from 2011. Sydney ranked 15th, falling from seventh. But in Auckland, it takes 16 minutes' working time to buy a Big Mac and 51 minutes to buy an iPhone 4S. In Sydney, it takes 12 working minutes and 32.5 minutes respectively.

However, cost isn't everything, and the idea that man does not live by bread alone leads to other measures. The United Nations 2011 Human Development Index – a comparative measure of life expectancy, literacy, education, standards of living and quality of life – ranks Australia second behind Norway and ahead of Netherlands. New Zealand ranks fifth, just behind the United States and ahead of Canada.

Similarly, Mercer's 2012 Quality of Living Survey – which evaluates cities under 10 categories, including political and socio-economic environment, medical and health considerations, education, transport and housing – ranks Auckland in third place, a position it's held for four years. Wellington maintains a respectable 13th, not far behind Sydney at 10th. Vienna and Zurich are first and second respectively and Copenhagen is ninth – so under this measure there's nothing rotten in Denmark, or in New Zealand, for that matter.

Such surveys don't take into account the fact that more Kiwis than ever are leaving our green and pleasant land for the red dirt of Australia. Take expat Rachel Buchanan, recently returned to Wellington from Melbourne and shocked by how expensive everything is here.

"As the half a million Kiwis who live across the Ditch know, not only is life cheaper in Australia, but the wages are so much higher," she wrote in the *Dominion Post*. "My observation is that there is a small, top layer of well-paid people in Wellington, who work as senior public servants or in flash corporate jobs, and then there is everyone else."

The 1912 royal commission grappled with balancing cost of living and living at a given standard. But what standard to choose? British models for an average worker suggested "a plentiful supply of cereal food, with a moderate allowance of meat and milk, and a little tea" plus "a well-drained dwelling with several rooms, warm clothing with some changes of underclothing." Good times.

Education and recreation were important. So, too, sufficient freedom for the worker's wife "to enable her to perform properly her maternal and her household duties".

There was a decidedly antipodean take on the standard adopted. As well as food, clothing and shelter, rest "to secure physical vigour" and leisure "for home training" were also critical. And freedom from oppression and repression – "to secure intelligence, resourcefulness, versatility, adaptability, and such moral virtues as temperance, diligence [and] enterprise".

Today's consumers price index (CPI) would seem to hold true to many of those ideals – except perhaps for temperance. The index, which measures the same shopping list of goods and services each quarter, includes food and clothing, the vices of alcohol and tobacco, and also housing, health, transport, recreation and culture, and education. The difference in the shopping bill every three months represents the percentage inflation – the rate at which the general level of prices for goods and services is rising, and, as a consequence, how every dollar you earn buys a smaller percentage of those goods and services.

Looking at the CPI from 1977 to today, while there are small blips where the index drops a little in a few quarters, the overall trend has always been up. It doesn't have to be that way. Sometimes prices will trend down – it's just most of us here have never seen that phenomenon. "The index shows that prices in New Zealand doubled from 1976 to 1981, and doubled again from 1981 to 1987," says Unitec Institute of Technology economist Keith Rankin. "However, the most recent doubling, from early 1987 to 2012, lasted over 25 years."

Plot wage rates against the CPI over the same period and you see that the two are more or less in step – in fact, they're pretty much the same line from the early 90s onwards. But if you track and index gross national income (GNI) per person over the period, there's a considerable difference. "Against that measure – the market value of all the goods and services New Zealanders earn each year – our wage rates haven't gone up by more than inflation for 30 years," says Rankin.

Many of the 740,000 New Zealanders earning less than $18.40 an hour are simply not getting enough to meet basic needs.

The overall effect, a legacy of the Rogernomics era of the 80s, is a "creeping unaffordability" problem. It's 30 years of the top streaking ahead, and the rest having to work longer just to stand still. Many at the bottom went backwards.

"Whereas in the 1970s people got paid more per hour (relative to prices and to average incomes) than today, since the 1980s they have borrowed more," says Rankin, pointing out that wage rates in New Zealand have grown more slowly than average incomes since 1982, the year of the wage freeze.

Since 1990, average incomes have more than doubled, but wage rates have increased by just 50 per cent, the same as inflation. We're beginning to realise that – as the Living Wage campaign shows – many of the 740,000 New Zealanders earning less than $18.40 an hour are simply not getting enough to meet basic needs.

In 1912, the main reason for the outcry against the rise in cost of living was that "wages and similar grades of incomes have of late failed to keep pace with the prices of things". Today some have found a way around that predicament – in some cases by working more hours, but also by taking on more household debt.

"We have the belief that property values always rise and never fall, so that increased spending can generally be funded by borrowing against equity in our homes," says Rankin. "And we are generally optimistic about our future incomes, and hence our ability to service debt."

For the moment, the global money go-round – from the overseas savings glut to New Zealand banks to New Zealand households – is just maintaining the middle-class Kiwi lifestyle, even if increasingly it's a squeeze.

As income inequality makes more and more New Zealanders poor, those in the middle may find they've been living in a fool's paradise.