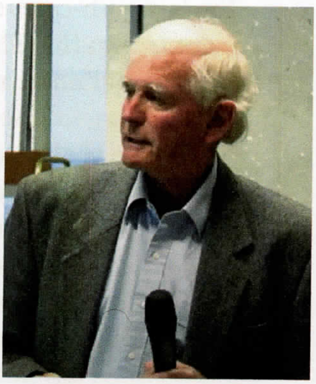
A Left response to the cost of living crisis

Geoff Bertram



This chapter is based on a talk given by Geoff Bertram at the Fabian Society on 14 November 2022. Dr Bertram is a Visiting Scholar in the School of History, Philosophy, Political Science and International Relations at Victoria University. He has authored over 100 publications and speaks regularly at international conferences. His main research areas are climate change policy, public utility regulation, environmental economics, small island economies, income and wealth distribution, and the evolution of the New Zealand economy.

To put today's debates into context, begin with history. The Left, particularly, needs to recall the history of the 20th century. We witnessed a very big victory for the social-democratic version of the Left project (and a defeat for the more revolutionary version). That victory lasted until the 1970s, with the construction of the welfare state and, according to Thomas Piketty's analysis, a fall in the income share of the top 1%.

But the last 50 years have seen a turnaround.

My topic here is grounded on that turnaround — the history of really big reactionary forces at work over very long periods of time, and in particular a shift in the balance of what used to be called class forces, though it is hard to pin classes down these days. I work with statistical categories of income like wages, profits and rent, and we have seen shifting shares of those in the total product of society (which provides the total income available for distribution among workers, capitalists and rentiers). With those shifting shares come tensions, and some of those tensions spill into what we call inflation.

Start with a clear distinction: inflation is not the cost of living. Inflation is just a change in the purchasing power of money. The cost of living crisis is about the ability of ordinary households to pay for the essential requirements for a decent life — the failure, in other words, of money incomes to rise along with prices. Inflation is survivable in a way a squeeze on real living standards is not.

But if you're a holder of financial assets, inflation is a big deal because it erodes the real value of your assets, while the interest rate determines the return you get on those assets. If you are one of those people, there are two things you really want in the world: higher interest rates, and low inflation. You want to protect the value of your money and get a big return on it. The demand for the Reserve Bank and the government to raise interest rates in order get inflation down comes most strongly from the financial part of the business community. And it always annoys me, coming up to 7:00 in the morning, that economic commentary on Radio NZ is so tightly controlled by the banks. When they say 'economists think' they actually mean what *bank economists* think, because you hardly ever get economists other than one of the articulate, fully briefed, bank economists in that slot in Radio NZ. Because they dominate the political and media debate, we get a single-minded focus on raising interest rates, with the promise that it will reduce inflation.

In fact it's not clear that raising interest rates is the key to reducing inflation. Interest rates work against domestically generated inflation only insofar as they cause collateral social damage in the form of unemployment and increased poverty for low-income groups, and misery for highly indebted households, of which there are quite a lot in the lower part of the income distribution.

High interest rates in New Zealand cannot save us from global inflation. We have been swept along with the global tide of inflation driven largely by the United States and Europe, and as we raised interest rates in New Zealand, the United States and Europeans were raising their interest rates too. Monetary theorists used to argue that if we raised our interest rate, our exchange rate would appreciate and this would cancel out the overseas inflation. That proposition, that we can control our own inflation and that inflation-targeting gives us control of our own inflation destiny regardless of what is happening in other parts of the world, is simply wrong.

I generally think of the inflation process as the way that a capitalist market system resolves conflicts over access to real resources, goods and services that haven't been resolved in some other way. If you want to pre-empt inflation, you have to resolve the conflicts that produce inflationary pressure.

Consider four of these conflicts:

- a generalised supply-demand imbalance
- excess money balances spilling over into the hoarding or purchasing of goods as stores of value (this encompasses speculation in real assets like housing)
- distributional contests among the great classes
- relative price changes when prices are sticky downwards,[1] so that to get changes in relative prices, some prices must rise while others stay the same, with general price levels bring dragged up in the process.

Conventional monetary policy is only about half of the first one — the demand side of the excess-demand-for-goods-and-services story. But the neoliberal mindset underpinning that policy stance means that there is no incentive to ask seriously about the causes of inflation, nor its differential impacts on different groups in society, nor about exactly whether and how the interest rate mechanism actually works.

A Left approach, as I understand it, seeks to address the underlying structural tensions in market capitalism from which inflationary cost of living pressures derive, and if possible resolve them in a progressive way. In particular, a Left position gives priority to opposing the regressive distributional consequences of both inflation itself, and anti-inflation policy, under the current regime. Inflation-targeting using the interest rate does not solve the cost of living crisis — it makes it worse, by transferring income and wealth from the poor to the rich.

Here's a list of basic starting-points that (in my opinion) a Left perspective should be grounded on:

- emphasis on the virtues of collective agency, control and action
- individual freedoms that, while important, are enjoyed subject to the constraint of the common good
- limitations on gross inequality of wealth and power and income
- priority on the poor, the weak and the marginalised
- rejection of the idea that markets can be moral arbiters — because the market has no ethical compass, it is essential to limit the spheres of human activity in which market forces are allowed to play without restraint.

At the same time we must be always aware that at the outside boundaries of the economy there is the reality of scarcity of resources. Further out, in a small open economy on a limited planet, planetary boundaries will ultimately limit what is achievable.

What, then, are the key issues affecting the cost of living?

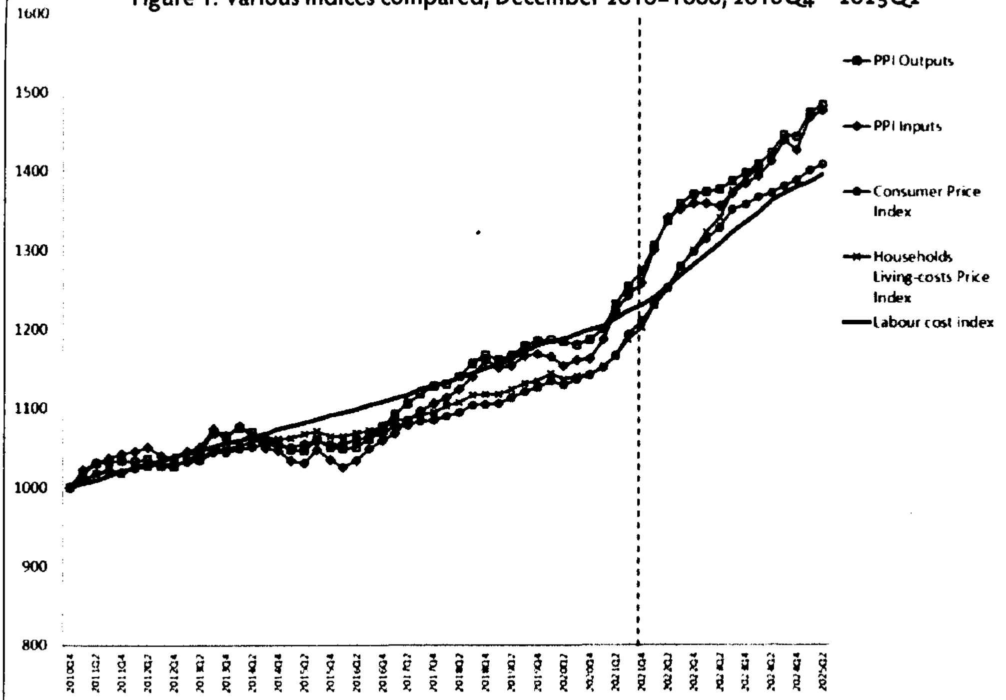
Market power is the first. The 'degree of monopoly', and its regulation and non-regulation, has been a longstanding concern of left-wing macro-economics right back to the 1930s in the writings of Polish economist Michal Kalecki,[2] whose analysis goes to the heart of what's been happening in New Zealand and indeed in Western capitalism over the last half century. Not only has price gouging (reflecting an increased 'degree of monopoly') been a major driver of the current inflation, it has also been a direct cause of the cost of living crisis.

Alongside this go the continual distributional struggles among workers, capitalists, rentiers and rent seekers. The recent emergence of labour shortages might have been expected to push up wages and shift the income distribution back a bit in favour of workers, but in fact wage increases have been subdued,[3] and a whole range of policies have been brought to bear to keep wages suppressed. Those policies range from abolition of the nascent fair pay agreements, and encouragement of mass immigration to create a reserve army of labour in what had become a fully employed economy, through to monetary policy deliberately designed to raise unemployment, and so dampen down wage rises and shift the income and wealth distribution against labour and the poor. Policy, in other words, is directed to create and worsen the cost of living crisis facing the least advantaged, while propping up the living standards of the wealthy.

All this is against the backdrop of big trends in global capitalism, with deregulation and financialisation combining to break the power of labour while the prospect of crashing up against planetary boundaries means that there are looming cost burdens coming up that will have to be shared around somehow.

In Figure 1 I have plotted four price indices over the period from 2010 (just after the GFC) to 2025, along with the labour cost index (the heavy black line) which is the cost of labour for employers when it is adjusted for labour productivity changes. I have inserted a dotted vertical line indicating when the current bout of price inflation began, after the end of 2020 and accelerating through 2021. All four price indices show the same turning point, while the labour cost index (the heavy line) stays on its previous track until 2022 when it too turns up as inflation feeds through to wages. As of mid-2025, labour costs were still lagging prices. Any suggestion that the inflation of recent years has been caused by wages, or that to fix this inflation we have to increase unemployment to stop wages from rising, can be dismissed immediately.[4] Yet we can be sure that the conventional way to curb inflation — high interest rates to cause recession and unemployment — will, as usual, be targeted against wage-earners.

Figure 1: Various indices compared, December 2010=1000, 2010Q4 – 2025Q2



Because prices have run ahead of labour costs, inflation has contributed to the cost of living crisis facing working families. But where did that inflation come from, given that it was not from wages?

There have been basically three inflation shocks combined. First, the long-running existence of unregulated market power on the supply side of the New Zealand economy — the legacy of the neoliberals' Commerce Act 1986[5] — enabled business to price gouge consumers during Covid and since.

The second inflationary shock was the global price increases triggered since 2020 by Covid, the Ukraine war, and economic policies running in other countries; this is mostly a supply-side issue as well.

Third were the monetary consequences of New Zealand's policy response to Covid, pressing up against the supply constraints. The New Zealand government made very large payments to keep businesses running and workers employed during the Covid episode, but failed to impose windfall taxes afterwards to mop up the excess liquidity that was left slopping around the economy to fund speculative investments, mainly by the rich, in durable 'stores of value', including housing which has been central to the cost of living crisis.

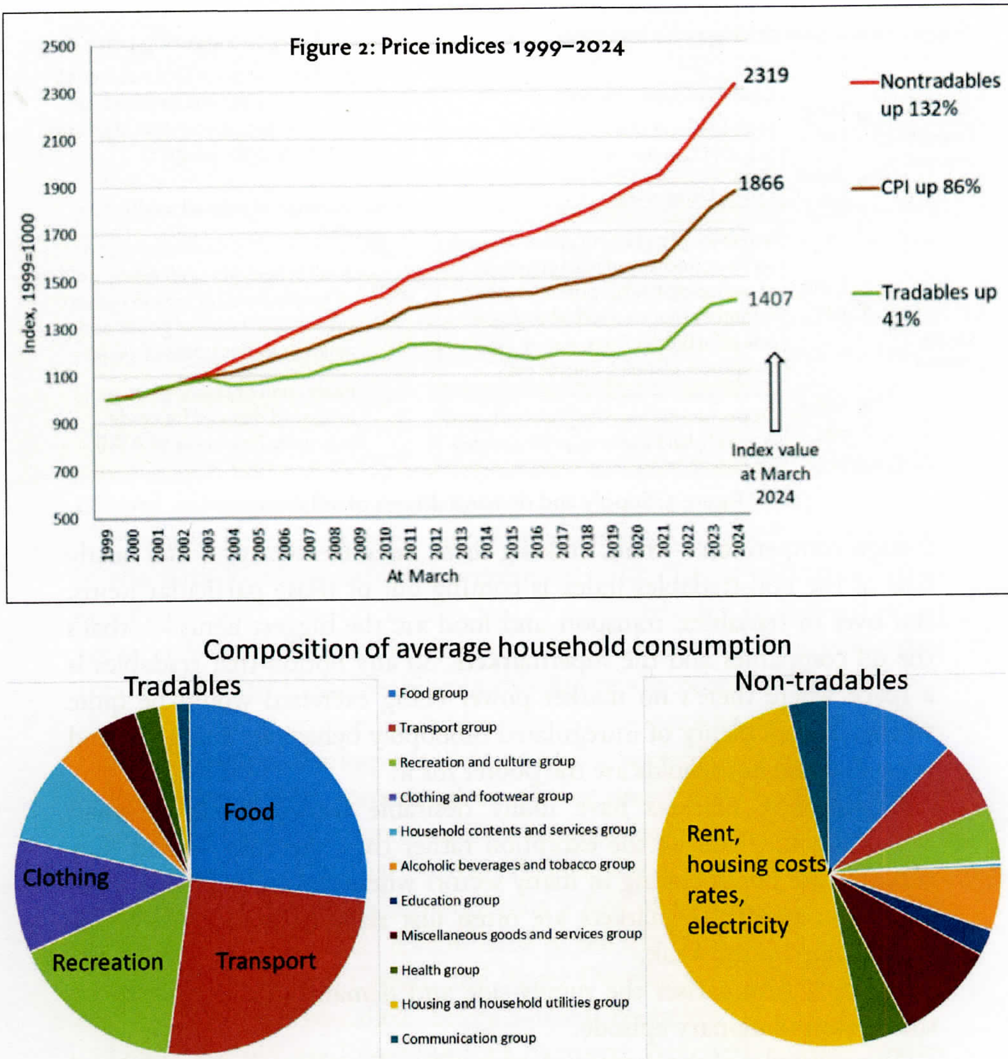


Figure 2 shows the trend of tradable and non-tradable prices since 1999, showing how in a deregulated economy the non-tradables sectors (those not competing with imports — e.g. banks, electricity, water supply, public services, hotel accommodation, real estate, construction) have pushed their prices up steadily ahead of the general inflation rate (the CPI). Rent, electricity bills, rates and other non-tradable charges are leading drivers of the squeeze on households delivered through the inflation process.

That is not to say, however, that the lack of competitive or regulatory discipline on profits has been limited to the non-tradables sectors. The bottom panel of Figure 2 shows where households' big-budget items lie. The non-tradeable sectors comprise goods and services that do not face

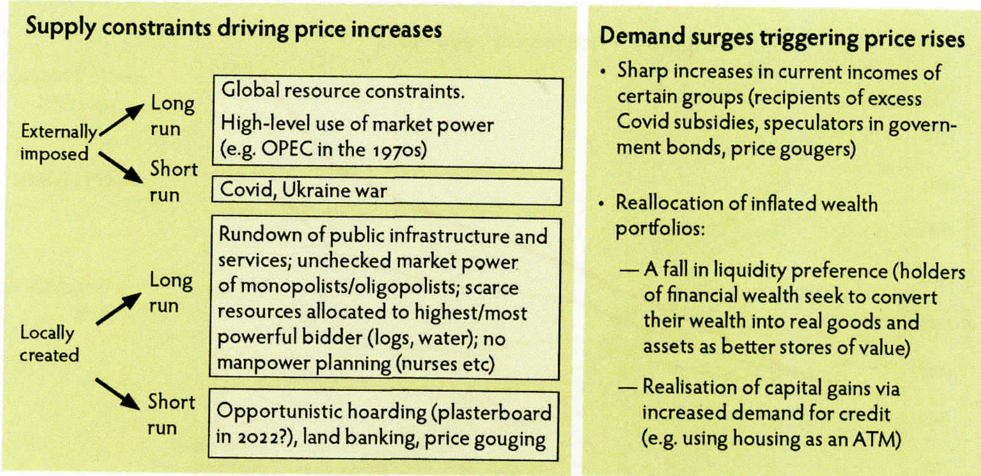


Figure 3: Supply and demand drivers of inflation

foreign competition — rent, housing costs, rates, electricity — and nearly half of the non-tradables index is coming out of those particular items. But over in tradables, transport and food are the biggest items — that's the oil companies and the supermarkets. So any notion that tradables is a space where there's no market power being exercised would be quite wrong. There's plenty of unregulated monopoly behaviour going on, and New Zealand households are the poorer for it.

Competitive markets have many desirable features, but in small economies they can be the exception rather than the rule — and they certainly are not operating in many sectors where the cost of living crisis bites. Uncompetitive markets are often just slaughterhouses where the strong chop up the weak.

Figure 3 summarises the supply-side and demand-side forces driving the recent inflationary episode.

Two examples of the absence of competitive discipline are the additional $50 per week added to student allowances a couple of years back, and the Winter Energy Payment. In both cases the suppliers (landlords and electricity gentailers) simply raised their prices to soak up the additional taxpayer-funded money, leaving the recipients of the payments no better off, but landlord and corporate-electricity profits fattened. Because government's announcement that students would have an extra $50 a week on the student allowance increased students' ability to pay without doing anything to regulate the terms of supply, there was a straight pass-through to the pockets of the landlords. Similarly, the Winter Energy Payment helps to keep up the price of gas and electricity, and hence the profits for the companies that supply those things, and because it's well announced in advance those companies know that they're going to be able to recover all the revenue that otherwise might be lost if older households turned the lights out or the heating down.

There has been advocacy recently of taking GST off fruit and vegetables. If you take off GST in a competitive market, then at least some of the tax reduction comes off the price consumers must pay — the supply curve shifts down, and the price falls. (It doesn't go quite 15% down, because you have to allow for the slope of the demand curve.)

But in an uncompetitive market — where the supply price is set by firms with market power— when the GST comes off, the suppliers know that the market will pay the existing price because they have already been collecting it. So as the government reduces its take from the retail price the suppliers can just collect extra revenue and profit, while the user does not pay any less.

I want to remind you what the old Commerce Act 1975 (from the days of the Kirk-Rowling Labour government) said: "Every person commits an offence, who, whether as principal or agent, whether by himself or his agent, sells or agrees or offers for sale, any goods or services at prices that are unreasonably high. Nothing in this Act or any other Act shall prevent the conviction of any person under this section, notwithstanding the fact that the marginal markup applied was not unlawful."

Every person who committed an offence under that Act was liable to a fine not exceeding $10,000 or imprisonment not exceeding six months if they were an individual. If the offender was a company, the penalty was a fine not exceeding $50,000, plus a fine of $500 for every day the price gouging continued. It's not hard to see why business interests were delighted when David Caygill and Roger Douglas's Commerce Act 1986 eliminated all that so-called "heavy handed regulation".

Under the old pre-Rogernomics Commerce Act 1975, market studies and criminal procedures could be initiated by the regulatory authorities in their own right. An official called the Examiner of Trade Practices was entitled to start a market study by the Commerce Commission at any time into things like plasterboard, supermarkets, oil companies, insurance companies, banks or electricity supply. They could then take offenders to court, and the courts could convict.

Under the neoliberal Commerce Act 1986, in contrast, everything is politicised. Nothing moves until the Minister of Commerce initiates a study, and that minister is subject to all the usual political pressures and lobbying. So with supermarkets, oil companies, plasterboard manufacturers, banks, electricity and all, we just watch a political game being played, rather than a reliable and predictable regulatory process.

A second thing to note about the old Commerce Act 1975 is that if you go back and look at the history, those powers were used very sparingly, and you will not find a huge number of convictions. The reason is that the mere existence of the law was a very good deterrent and business behaviour adjusted accordingly. Since the old Act was taken away in 1986, business conduct has adjusted in a predatory direction to take advantage of the much less strict regulatory environment.

Rogernomics and Ruthanasia changed the groundrules for business in several ways. Besides the Commerce Act 1986 that licensed monopolistic conduct, we still live under the Employment Contracts Act 1991 that destroyed the bargaining power of workers; the State Owned Enterprises Act 1986 that forced SOEs to prioritise profit above all else; the Reserve Bank Act 1989 that gave us monetarist inflation obsession combined with fiscal abdication; and the Fiscal Responsibility Act 1996 (now part of the Public Finance Act) that tied the state into a fiscal straitjacket of low debt and balanced budgets. These and other statutes comprise what I call an 'iron cage' of constraints on government, that tie its hands in the face of pressing social and economic need. Reversing those statutes would be part of a possible Left agenda, and would do two things: provide more tools for managing inflationary episodes, and put a check on the locally generated inflation drivers in Figure 3 above.

There is, however, no silver bullet to insulate us from global inflationary pressures. We are part of Western capitalism and any major inflationary episode in Western capitalism is going to come through to us. The so-called 'great moderation' of inflation from the 1990s to the 2010s was a global phenomenon that we simply cruised along with (don't give the Reserve Bank too much credit). What domestic policy can do, though, is change the distributional impacts of inflation on the New Zealand community when external shocks come in. That brings me to distributional conflict.

The orthodox view is that without government meddling there would be perfect competition in flexible markets — so regulation and Keynesianism and all sorts of other Left ideas are terrible. But then when the orthodox thinkers come to monetary policy, there is a terror of workers and worker bargaining power, which are assigned all the blame for inflation. It's called the Phillips Curve. Full employment is claimed to be associated with wage inflation, so unemployment has to be maintained. In an imperfectly competitive setting, that's just class war in camouflage. Because workers gain strength in booms, whereas employers gain strength in slumps, slumps are preferred by policymakers as the way to tame inflation.

It is true that full employment confers market power on organised labour if they choose to use it. So the old Keynesian Left added policies to protect wages and benefits while curbing the exercise of market power, to try to prevent inflationary consequences.

Figure 4: Inside a central banker's brain — a textbook diagram (from Carlin & Soskice)

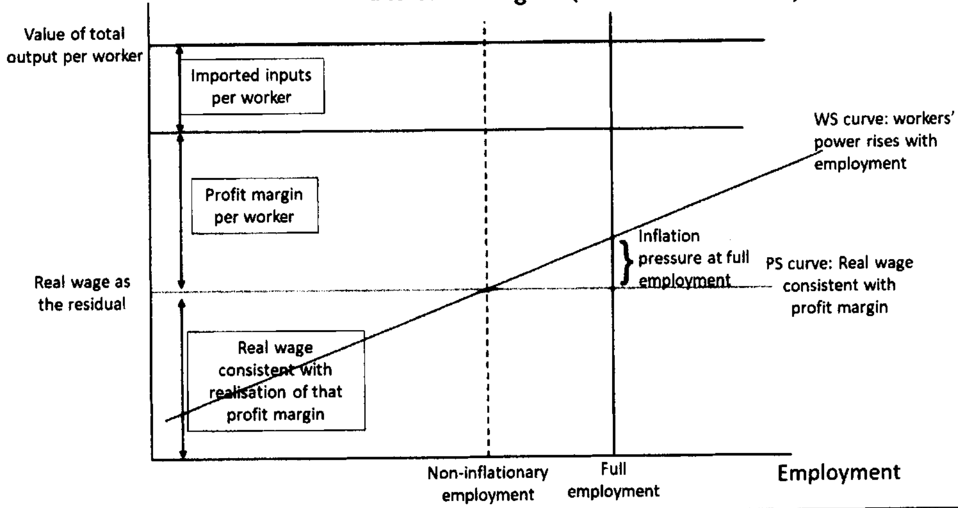


Figure 4 is a map of the inside of a central banker's brain, with employment measured along the horizontal axis and dollars up the vertical, for the whole economy treated as a firm. From the value of total output per worker at the top, we subtract the cost of imported inputs to production, leaving the total local product (domestic value added) to be distributed between wages and profits.[6] The profit margin is set by the firm — the employer — and is recovered by their pricing procedure of marking up prime costs. What's left over — at the bottom of the diagram — is a real wage share that's consistent with the profit margin. The central bank sees its job as preventing the wage share from rising above this level, by increasing unemployment to crush workers' bargaining power.

Notice the order of business. First the import bill must be met. That is inescapable (we are not powerful enough to run the world). Second, the profit margin is safe, because the firm has market power and can dictate its target markup and hence the sale price of the product. Third, workers are at the bottom of the queue in terms in terms of what they actually get as a real wage, shown by the horizontal line labelled 'PS'.

In this model, there are (at least) four things that can trigger inflation, but there is just one policy response.

- Get too close to full employment? — the response is to raise interest rates to push up unemployment and discipline workers.
- Workers' market power increases due, e.g., to unionisation (pushing the WS curve up, so higher wages are demanded at any level of employment)? — raise interest rates to force employment down and unemployment up and so discipline labour.
- Producers engage in price gouging to increase their mark-ups (shifting the PS curve down, thereby triggering inflation as workers try to defend their position)? — raise interest rates to discipline workers and make sure they carry the burden.
- Import costs increase? — raise interest rates to make sure that the burden of those higher costs goes onto workers.

That is the imperfectly competitive orthodox macro-economic model.

One of the leading critical voices addressing this approach to economic management is the modern monetary theorist Bill Mitchell, who emphasises that raising interest rates actually pushes up a lot of costs — i.e. higher interest rates can be inflationary in themselves, for example by pushing up housing costs. Below is an extract from one of Mitchell's recent writings:[7]

> In the short-run, the interest rate rises can easily be an inflationary impetus, yet create recession after some time. Why?
>
> First, the interest rate impact on business costs and the ability of households to access credit to maintain current spending levels means that the short-run effects of interest rate rises are likely to be inflationary not deflationary.
>
> Second, over time, as interest-rate rises continue, the capacity of households to continue maintaining consumption via credit diminishes and the squeeze on real income increases.
>
> There is only so much substitution consumers can make to defend their spending on essentials, while maintaining solvency in terms of their nominal contractual commitments (such as their mortgages).
>
> Household saving stocks are finite and eventually run out.
>
> At some point, the marginal households lose their houses because they default on their contractual commitments and there is a multiplicative effect that reverberates through the economy.
>
> The spending withdrawal of higher propensity to spend, low-income households becomes greater than the interest-rate boost to those with financial wealth and total spending starts to decline.
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> At that point, as sales start to retreat and inventories start building up, firms lay off workers after cutting hours of work and a recession looms.

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Hence modern monetary theorists focus on distributional issues rather than the blunt anti-labour instrument of the interest rate — a sharp divergence from the orthodox policy stance that simply ignores distribution. And they argue that far from curbing inflation, interest rate policies do the opposite until they are overtaken by the effects of an economic slump.

The Left is not the only place to go to hear about distribution, though. 'Helicopter money' — government making direct money payments to private-sector players — happened across a lot of countries during the Covid period, and what struck me was that the helicopter money drops that went to the general population, rather than business, tended to be from right-wing governments, not left-wing ones. Trump ensured that his personal signature was on the helicopter cheques in the USA. Bolsonaro made great play of his strongly poverty-reducing handouts in Brazil. Meanwhile Labour in New Zealand firmly channelled monetary injections towards the rich rather than the poor.

Helicopter drops here went directly to business, only indirectly to employed labour, and not at all to those outside the labour market. Draw what conclusions you wish. But note that the detail of money creation in the face of a crisis matters a lot for the distribution of wealth. The Covid fiscal response in this country involved big wealth transfers from government to the private sector, with a lot of that wealth in the form of financial assets the return on which depends on interest rates, and the long-run value of which is reduced by inflation. So of course those groups holding the new private wealth wanted low inflation, high interest rates — and tax cuts too of course. That included the big Australian-owned banks, which were pulling in large amounts of interest paid by taxpayers on settlement cash balances that were grossly inflated during Covid, as well as big profits from their function as the main creators of the money supply, and capital gains from trading in over-issued government bonds.

The National and Act parties rode to electoral victory in 2023 vigorously promoting the interests of those groups.

Figure 5 shows some key series from the analytical balance sheet of the Reserve Bank of New Zealand. The grey frame highlights the extraordinary period from early 2020 to early 2021 during which the monetary statistics simply exploded. My reading of the story was as follows. The Treasury seems to have (at least) two policy silos: one that operates fiscal policy, and a separate silo called the Debt Management Office (DMO) that prints and sells government bonds. With interest rates very low in mid-2020 the DMO (which has responsibility for minimising the cost of government borrowing) seized the opportunity to issue a huge

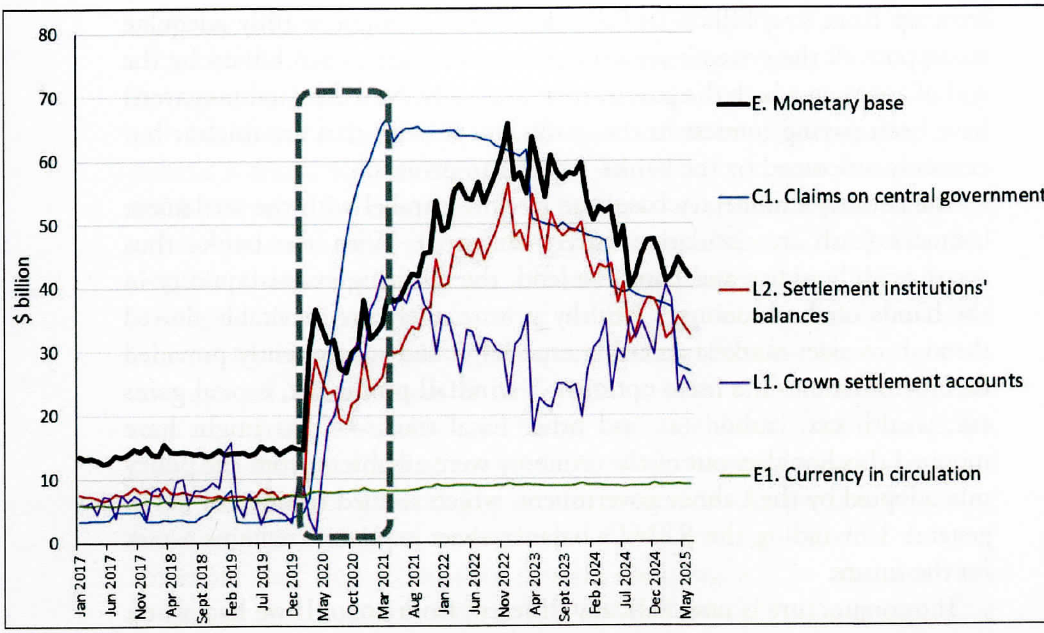

Figure 5: RBNZ analytical accounts Table R3, 2017–2025

number of government bonds into the market, at the same time as the fiscal authorities were making large cash outlays to sustain the business economy during Covid. The cash proceeds from the DMO's bond sales were parked in the government's account at the RBNZ — the line marked 'Crown settlement accounts' which had risen to nearly $40 billion by mid-2021. At the same time the RBNZ was frantically buying in government bonds on the open market to prevent interest rates from rising (the Large Scale Asset Purchase Programme, LSAP), with the result that the RBNZ's total holdings of government bonds ('claims on central government') went from $6.8 billion in March 2020 to $66 billion by March 2021. Around $40 billion of this enormous bond holding was acquired simply to cope with the market impact of the DMO's mass bond sales in mid-2020. A better case study of failure to co-ordinate fiscal and monetary policy would be hard to find.

Summarising to here, what the RBNZ balance sheet says is that the New Zealand government funded its Covid response by borrowing more than $60-70 billion, of which it did not actually need $40 billion. The excess borrowed cash, rather than being used to cancel the offsetting government bonds held by the RBNZ, simply sat in the Crown settlement accounts. Meantime the RBNZ's LSAP purchases pushed cash into the banks, whose liquidity position, measured by their settlement cash balances, went up from $7.4 billion in February 2020 (an amount fully adequate to support all the system's settlement requirements) to $56 billion by the end of 2022, on which the government (basically, New Zealand taxpayers) have been paying interest to the banks, for reasons that are unclear but certainly welcomed by the banks' Australian owners.

The country's monetary base rose in close parallel with the settlement balances (cash in circulation barely changed). With the banks thus awash with liquidity and happy to lend, the resulting excess liquidity in the hands of the economy's wealthy private operators inevitably flowed through to asset markets (housing especially) and subsequently provided fuel for inflation. The fiscal options — windfall profits tax, capital gains tax, wealth tax, carbon tax and other fiscal tools — that might have mopped this liquidity out of the economy were all absent from the policy mix adopted by the Labour government, which seemed terrified of tax in general. Unwinding the RBNZ's balance sheet explosion remains a task for the future.

The conjuncture is now radically different from 2020. If we had a Left government, this would be the time for serious tax increases to fund massive infrastructure investment. Instead we are left with a structural trend towards the new feudalism, as rentiers exercise a growing claim on the product and government reduces their tax burden.

I turn finally to the issue of how we allocate scarce resources in the New Zealand economy. Economics is, after all, ultimately to do with allocating scarce resources. If there are supply constraints, that means that the consumption of goods and services has to be rationed somehow.

The price mechanism, left to itself, will do the rationing in favour of the rich or the highest bidder. So if you leave the price mechanism to ration scarce resources, those resources will go where people with greater purchasing power are. If, for example, logs get exported rather than put through local sawmills, then they close down and we are left with a growing scarcity and oligopoly in the supply of building products.

For the same reason, when you go to the supermarket you pay the export parity price for butter and cheese (actually rather above that parity price, I suspect).

If you don't want the unconstrained price mechanism to do the rationing you have to have a non-price mechanism of some sort, or at least some intervention into the price mechanism, particularly to protect the poor. Electricity pricing is an issue I've said a lot about, but there's also the construction industry, which has been under a lot of stress for the last two or three years. Massive retirement villages have been built for the relatively affluent retired, sucking up the resources that Kāinga Ora and affordable housing providers have been struggling to get their hands on. Perhaps there could have been a temporary pause on retirement-village and McMansion construction while we sorted out the housing crisis. Instead it seems we are to go through yet another economy-wide boom-and bust cycle in construction, with Kāinga Ora one of the first casualties.

More sensible, more progressive resource allocation, unfortunately, requires serious action by an efficiently organised state. Instead, the ideological small-state discourse of the last few decades has been baked into policy thinking, while public sector capability has been massively downgraded. Government is still working with a notional line in the sand for what is laughably called 'core spending' (nearly half of which is transfers, not spending) of 30% of GDP. That translates to just 16–18% of GDP that goes in providing government services. As the cost of paying transfers (social welfare, unemployment etc) goes up with the onset of recession, that tiny actual core of state spending will be squeezed even further as the obsession with a 30%-of-GDP total continues. Spending 16–18% of GDP on health, education and other government services is miserly; cutting it further is just braindead right-wingery.

This is not an argument for spending for its own sake, or more spending funded by deficits and borrowing. It is an argument to spend more, wisely, and to tax accordingly — not the 'tax and spend' of right-wing slogans.

Modern Monetary Theory has correctly, I think, argued that government spending can always create the amount of money required to cover spending so long as the real resources can be obtained. But the resources needed for public services and infrastructure have to be made available by the tax instrument, which is the means by which some groups in society are blocked from pre-emptively commanding scarce resources that are needed for providing public services. The tax leg of this is absolutely vital. (So is the balance between contracting-out and direct state provision, but that is a topic for another occasion.)

Summing up, a Left response to the cost of living crisis would involve, on the supply side,

- working on domestic supply to mitigate inflationary and cost pressures;
- restraint on the private exercise of market power by employers and the corporate sector;
- collective provision of a full range of essential services; and
- rationing of access to critical scarce resources, to secure access for the least advantaged.

In relation to domestic demand, policies are needed that control the distribution of income and wealth via taxes and transfers, fair pay agreements and minimum wages, and measures to ensure that the burdens of adapting to global shocks and checking inflation are not simply dumped onto wage-earners and onto the weakest and most vulnerable members of the community.

Endnotes

1 'Sticky downwards' is a macroeconomics expression which means that prices don't fall anything like as fast as they rise — which is why relative-price changes result in a higher average price level.

2 M. Kaelcki, 'The determinants of distribution of the national income', *Econometrica* Vol 6 No 2 pp 97-112, April 1938; 'What is inflation?', *Bulletin of the Oxford Institute of Economics and Statistics* Vol.3 No 8 pp 159-164, June 1941.

3 This reflects the ongoing effect of the Employment Contracts Act 1991 in suppressing real wages in New Zealand. See Geoff Bertram & Bill Rosenberg, 'The Employment Contracts Act 1991 and the labour share of income in New Zealand: an analysis of labour market trends 1939–2023, New Zealand Economic Papers, https://geoffbertram.com/wp-content/uploads/2024/05/dompost-letter-sent-22-april-2024.pdf

4 Similar conclusions about the recent inflationary episode have been reached elsewhere; for example Paul Beaudry, Chenyu Hou & Franck Portier, 'The Dominant Role of Expectations and Broad-Based Supply Shocks in Driving Inflation', May 2024, in *NBER Macroeconomics Annual 2024*, www.nber.org/books-and-chapters/nber-macroeconomics-annual-2024-volume-39/dominant-role-expectations-and-broad-based-supply-shocks-driving-inflation : "Both our Phillips curve exploration and our VAR analysis … suggest that inflation is mainly driven by expectations and quasi-i.i.d. [identically and independently distributed] supply shocks, with labour market tightness playing a very secondary role. In other words, the data maintain support for a close-to-flat Phillips curve view with short-term inflation expectations being an important driver of inflation."

5 Geoff Bertram, 'Why the Commerce Act 1986 is unfit for purpose', *Policy Quarterly*, Vol 16 No 3 pp 80-87, August 2020, https://geoffbertram.com/wp-content/uploads/2021/12/why-the-commerce-act-is-unfit-for-purpose-2020.pdf.

6 Because the diagram is for the whole domestic economy, all the intermediate transactions among firms have cancelled out, leaving just value added.

7 http://bilbo.economicoutlook.net/blog/?p=50764, 2 November 2022.