

Vital Signs: what will end up in Scott Morrison's 'good' books?

Written by Richard Holden, Professor of Economics and PLuS Alliance Fellow, UNSW

Vital Signs is a weekly economic wrap from UNSW economics professor and Harvard PhD Richard Holden (@profholden). Vital Signs aims to contextualise weekly economic events and cut through the noise of the data affecting global economies.

This week: inflation officially gets back into the RBA's target range, markets react positively to the French election, and Australia's treasurer wants the budget to distinguish between "good debt" and "bad debt".

A lot of economics is counterintuitive. In that spirit, the first headline this week was that the prices of things we buy in Australia are going up at a faster rate, and that this is good news. Huh?

The March quarter CPI was up 0.5%, bring the annual rate to 2.1%, which was finally back in the RBA target band of 2-3%. The reason this is good news is that the RBA and other central banks around the world have been worried about a deflationary spiral that is hugely difficult to break out of once it takes hold. That, in no small part, accounted for the aggressive interest rate cuts we have seen over the past several years.

Finally, it seems, that expansionary monetary policy may be doing the trick. A large dose of humility and caution is in order, but it was a positive sign. Indeed, once one strips out more volatile items, the annual CPI growth was 1.8% – outside the RBA band.

This will surely influence the RBA in coming months if CPI genuinely gets into the target band. But with the labour market still weak – Department of Employment data released Wednesday show a 0.6% drop in online job ads on the back of a 0.3% decline in February – don't expect the RBA to do anything except be cautious at their board meeting next Tuesday.

Overseas, the first round of the French presidential election was a good news-bad news thing. The sane, centrist candidate Emmanuel Macron won 24.0% of the votes and looks the person to beat in the upcoming two-person runoff election. His opponent – the second-place getter with

21.3% of the vote – is the far-right National Front candidate Marine Le Pen.

Le Pen is pushing a “France first” agenda and wants out of the European Union. Markets reacted positively to the news of Macron’s victory, essentially expressing the view that he will win the runoff. Let’s hope so. Le Pen is objectionable to many people for many reasons. Just one of those reasons is that she would yank France out of the European Union, destroying the European project and perhaps the world economy in the process.

It is also worth noting that this is the first time in the 59-year-history of France’s Fifth Republic that neither of the major parties has a candidate in the runoff. On the back of Brexit and Trump this is more evidence of the strange new global political landscape to which we are becoming accustomed.

Back at home, the lead-up to the federal budget has seen a number of significant and sometimes surprising policy announcements from the Commonwealth government.

It announced significant changes to the 457 visa program which could upend skilled migration to Australia. There are [huge concerns for the university sector](#), and others, myself included, worry about the technology sector.

A second major announcement was a plan to intervene in the liquefied natural gas market to prevent too much LNG being exported. This seemed to gel with the PM’s populist message on migration. About the gas market he said:

“Australian jobs, Australian industry must have enough gas. It is vital that the energy market here is fully supplied.”

I’ll wait to see the details before opining on the plan, but at first inspection it does seem to address a real and important issue. Indeed, I recently wrote about the need for a “gas reservation policy” in a [report for the McKell Institute](#). That said, one needs to be careful to respect existing contractual arrangements. A Liberal government abrogating private sector

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contracts through the use of constitutional powers would be a little shocking.

Finally, on Thursday, Australian Treasurer Scott Morrison announced that the government budget papers would make a formal distinction between “good debt” and “bad debt”: the former being debt for productive investment; the latter debt funding current expenditure. I have been badgering the government to do this for quite a while, [including here](#).

We will need to see more about the implementation, but when the government adopts a version of an idea I have been agitating for I can hardly boo. Still, based on the treasurer’s language in his announcement, there is cause to be worried that “investment” might be too narrowly conceived – that it will only be physical investments in bridges, roads, rail lines and the like.

Productive investments by government are much broader than this and include investments in human capital of many kinds, just for starters. Does anyone doubt the value of a really high-quality school teacher, for example? Let’s hope such investments fall into the treasurer’s “good” books.

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