ACTU

AN ECONOMY THAT WORKS FOR PEOPLE

Jobs Summit Series – Paper 1

CONTENTS

ABOUT THE JOBS SUMMIT SERIES

Everyone has the right to work in a secure job with decent pay. While Australia has emerged from lockdowns in better shape than many countries, our wages, stagnant for nearly a decade, are not keeping up with the sky rocketing cost of living, and insecure work is rife. Other major challenges are also impacting upon the world of work, from the climate emergency to strains in the care economy and the changing nature of work.

The Jobs Summit in early September is the chance to chart a course towards full and secure employment for all. The *Jobs Summit Series* – a series of papers released by the Australian Council of Trade Unions (ACTU) in the lead up to the Summit – aims to provoke debate and build common ground on what that course could be. This paper, the first in the series, discusses the policies needed to achieve a macroeconomy that works for all.

Read more at **www.australianunions.org.au/job-summit.**

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www.futurework.org.au

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EXECUTIVE SUMMARY

The Jobs Summit is a chance for Australia to chart a path towards an economy that works for people. This report aims to help guide the way.

The challenges we face are significant: an acute cost of living crisis, the global storm clouds of recession on the horizon, and a pandemic that is not going away.

But business as usual won't work. As this report details, nine years of failed Coalition Government macro-economic management have given us a weak starting point: record low growth, declining real wages, mediocre levels of business investment, a crisis of insecure work and an economy so overbalanced towards profits and away from wages that it risks capsizing. This era also did little to prepare us for the big challenges in the world of work: the climate crisis, the strains of the care economy and a broken skills system, among others.

We now face conservative economic voices that would rather crash the economy and put people out of work to lower inflation, than put people first. That's a cure worse than the disease as this report spells out.

Simply improving productivity will be no magic bullet either: the link between workers' wages and productivity gains is now so weak that it is about to snap. Boosting it will be welcome but that alone won't solve most of our economic problems.

Instead we need macroeconomic policy settings that allow people to meet their full potential – full employment in secure and well paid jobs – and to meet and beat our big challenges.

To achieve this, our first report in the ACTU's Job Summit series is calling on the Government to:

1. Establish full employment in decent jobs as the top national macroeconomic priority.
2. Reform the mandate and operational strategy of the Reserve Bank to better work with other government agencies to achieved balanced objectives of full employment and inflation using a wider range of policy levers.
3. Implement a fairer inflation-reduction policy that protects workers' incomes, prevents price gouging, and tackles the underlying sources of inflation, especially in energy and housing, and reduces the cost of key public services such as early childhood education and care.
4. Use active fiscal policy to help achieve and maintain full employment, decent jobs, and stable prices.
5. Regulate labour markets so that real wages rise in tandem with labour productivity and support the maintenance of full employment.
6. Use targeted tax measures to cool off aggregate demand pressures in fairer ways. This includes considering:
   - An excess profits levy on companies enjoying windfall profits as a result of current inflation,
   - Taxation reform to encourage business capital investment and deter distributions of dividends and share repurchases by Australian corporations, and
   - Cancelling the planned Stage Three tax cuts which only benefit higher-income households and will exacerbate inflationary pressures.

1. INTRODUCTION: A MACROECONOMY THAT WORKS FOR PEOPLE

The 'economy' is not some independent entity, possessing its own emotions and decision-making capacity, that must be satisfied with appropriate gifts and sacrifices in order to function effectively. The economy is us. It is the place where we work, produce and consume: in hopes of living our lives to the fullest, in healthy families and communities and with a sustainable environment.

The task of 'economic management' is not a matter of pushing the right buttons or meeting a list of pre-ordained and usually ideological benchmarks: like balanced budgets, 'competitive' taxes, or investment confidence. The fundamental goal of macroeconomic policy must be to enhance the capacity of people – the vast majority of whom are workers – to work, produce, and fairly share in the fruits of their labour. This fundamental purpose is all too often forgotten, as we continue to rebuild after the unprecedented shock of the Covid-19 pandemic. With accelerating inflation and the looming risk of another recession, it's more important than ever to put working people at the centre of the macroeconomic policy picture.

A healthy economy is one in which every willing Australian has abundant opportunity to work and produce to the fullest of their capacity. Policy should focus on enhancing our capacity to work: including through lifelong opportunities to acquire skills, experience, and innovation; supports to improve job quality and security; and strategies to accumulate capital and technology so we can work better. A healthy economy is one in which the benefits of growth and productivity are shared fairly and sustainably, with first priority given to those who have been excluded from prosperity for too long including women, youth, indigenous Australians, immigrants, and people with disability. It is an economy which respects the natural environment by investing wisely and rapidly in the technologies and industries to move us to a net zero emissions economy.

These fundamental goals are typically downplayed in conventional economic debate. The cost to ordinary people is usually ignored in a simplistic focus on getting inflation down, getting deficits down, getting costs down, and getting taxes down.

None of those so-called 'fundamentals' are goals in their own right. Many are explicitly harmful. Instead, the true goal of economic management must be more concrete and more hopeful: allowing Australians to use their energy and their knowledge to produce the goods and services we collectively need to survive and thrive.

Over the past 30 months, Australia's economy has traversed an unprecedented and volatile path because of the Covid-19 pandemic. It is not surprising that our economy is struggling to regain its footing after those events. But our current challenges are not solely due to Covid; they are also the result of years of macroeconomic mismanagement and imbalance. Australia entered the pandemic with an economy that was chronically underperforming and dangerously unbalanced in terms of sectoral composition, income distribution, and environmental sustainability. This has shaped and constrained the response to, and economic recovery from, the pandemic.

The Jobs Summit occurs at a critical moment. The rebound in economic activity and employment since the initial Covid lockdowns has been impressive – fueled first and foremost by powerful government interventions that protected incomes and stimulated spending. Unemployment now at multi-decade lows presents an opportunity to keep striving towards a labour market in which decent, secure jobs are abundant, and workers are supported to work to the best of their abilities.

But dark economic clouds are also gathering. This is partly because of a surge in inflation that is an obvious and likely temporary side-effect of the pandemic. But the storm clouds are also caused by central banks willing to risk a deliberate recession in their crusade against inflation. They have forgotten that supporting people to work and produce is the economy's central goal. The U.S. economy is already in technical recession, global growth forecasts are quickly being downgraded, and many segments of the economy (like equity markets and property markets) are already plunging. Australia will not be immune to this downturn – and misplaced austerity in both monetary and fiscal policy will only make things worse.

In the lead-up to the Jobs Summit, the ACTU stresses the need to focus attention on the ultimate purpose of macroeconomic management: to achieve and maintain genuine full employment, in which every willing Australian can quickly find and keep secure work with fair pay. In turn, this requires active strategies to turn around our low levels of investment and innovation; to manage income distribution fairly and sustainably, so all can fairly share in the benefits; and to speed our transition toward a net zero emissions economy in the face of the climate crisis.

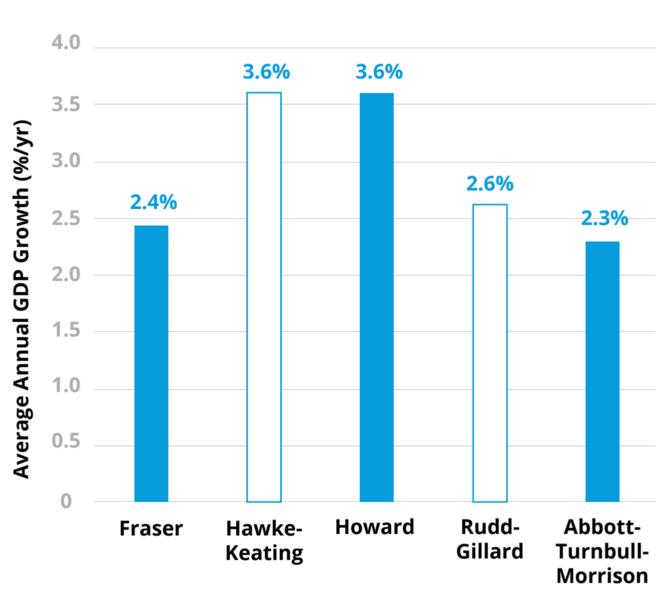
This paper outlines the ACTU's vision for inclusive, sustainable full employment, and the policies needed to achieve it. First it summarises the failed macroeconomic legacy of nine years of Coalition governments. We then consider the causes and consequences of the current surge in inflation, explaining why rapidly increasing interest rates to reduce growth and employment is a 'cure' worse than the disease. The paper then discusses the issue of productivity: what it is, what determines it, and why boosting it alone is no guarantee for solving Australia's other economic problems. The paper concludes by outlining an agenda to achieve an economy that truly works for people.

2. WASTED OPPORTUNITIES: NINE YEARS OF COALITION MISMANAGEMENT

Coalition politicians routinely boast about their economic credentials, but the legacy of their nine years in office is very different. In fact, that period constitutes the weakest sustained era for economic growth in Australia's postwar history. By many different indicators, Australia's economy badly underperformed. Even before the Covid-19 pandemic hit, the economy was listless, unbalanced, and failing.

The Coalition recorded the worst average growth rate (just 2.3% per year) of any government in recent decades (see Figure 1). The economy teetered on the brink of recession several times, weakened by a collapse in business investment spending, weak consumer demand, and needless fiscal austerity by government. Over half of the growth that did occur was due to Australia's growing population (mostly due to immigration). In per capita terms, real GDP grew at an average of just 1.0% per year: half the average recorded over the previous half-century.

Figure 1. Economic Growth by Term of Government



Source: Calculations from ABS National Accounts, Table 2.

Against this backdrop the economy quickly sank into its first official recession in 30 years when Covid hit. To be sure, most countries were similarly afflicted by the pandemic – but Australia entered the crisis with a lack of momentum, growing structural fragilities, and cumulating stresses. That exacerbated the resulting downturn – and makes it more difficult to achieve a strong, inclusive, and sustainable recovery pandemic. These are just some of the structural failures that were evident during the era of Coalition mismanagement:

» Australia's labour force was badly underutilised throughout most of the Coalition's time in office. Official unemployment averaged 5.6% during this time, representing the idling of hundreds of thousands of potential workers. In addition, high levels of underemployment (driven mostly by the expansion of insecure part-time, casual, contracted-out, and 'gig' work) became endemic during the years preceding the pandemic. Well over one million Australians reported working fewer hours than they needed, continuously from 2014 right through to the Covid lockdowns (when underemployment became much worse).[1] Close to one million more Australians have indicated in recent years they would like to work, but were not 'actively' seeking it due to a lack of feasible job opportunities – thus remaining outside the labour force (and ignored by official unemployment statistics).[22]

1 See ABS Labour Force, Table 22.

2 In February 2022, some 935,000 Australians reported wanting to work but not seeking it for a range of reasons; this pool of potential but unutilized workers was even larger in the years before the COVID-19 pandemic; see ABS Potential Workers, and Participation, Job Search and Mobility.

- Australians' skills, knowledge, and innovation potential were also badly underutilised during the Coalition era. Apprenticeships and other vocational training fell to postwar lows relative to the labour force, held back by funding cuts to TAFE, failed private training schemes, and underinvestment by employers. Business investment in innovation and R&D also slid after the Coalition came to power: from over 2.5% of GDP in 2012, to under 1.9% when it left office.[3]
- The Coalition also oversaw a dramatic decline in business capital investment. Total business capital spending (including on structures, machinery, and intellectual property) collapsed by over one-third as a share of GDP between 2012 and 2019. It got even weaker after the Covid lockdowns, despite unprecedented tax breaks for business offered in the Coalition's 2021 and 2022 budgets. Business spending on new machinery, equipment, and technology has fallen especially quickly: now equal to just 3.5% of GDP, half the pace of the 2000s, and by far the weakest in Australia's postwar history. This underinvestment contributes to poor innovation, productivity growth, and competitiveness. Indeed anyone concerned with boosting Australian productivity should start by understanding, and then reversing, the private sector's miserable investment performance.
- Under Coalition leadership Australia's economy failed to come to grips with the biggest long-run challenge facing economic growth: the growing climate emergency, and the need to transition quickly to renewable energy and production. Australia now boasts the highest per capita greenhouse gas emissions of any OECD country, having seized that dubious title from the U.S. (which achieved significant greenhouse gas reductions in recent years). The previous government failed to take leadership to adopt cleaner technologies, invest in sustainable industries, and reduce pollution – measures which not only build a safer climate, but would create hundreds of thousands of good jobs and support significant export industries. This makes it all the more challenging, and urgent, for Australia now to accelerate the transition toward net zero emissions.

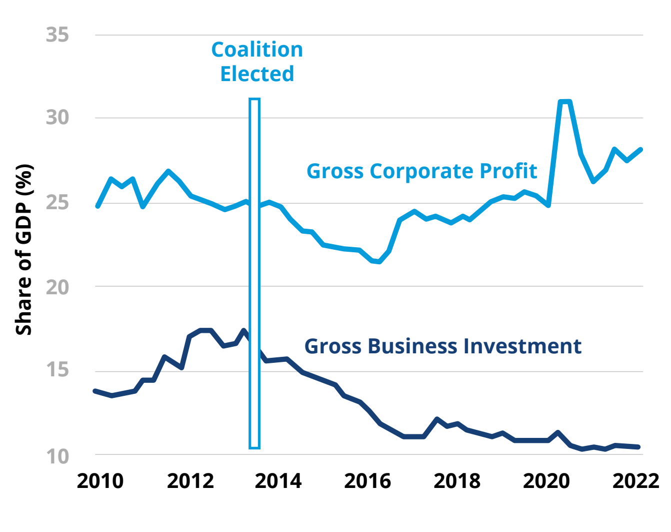
In short, not just the slow pace of economic growth over those nine years, but also its quality and composition, exposes the failures of Coalition mismanagement. Australia's economic development over the past decade has been shaped more by ideological favours done to Coalition-friendly sectors of the economy: in resource extraction, property development, and finance. Distorted tax laws, subsidies, and regulatory loopholes have favoured speculation over production, and extraction over value-adding. They have left Australia's economy structurally unbalanced, and highly vulnerable to the next downturn.

Another dimension of Coalition economic mismanagement is growing income inequality. After an initial pause due to the downturn of global commodity prices in 2014-15, corporate profits grew rapidly through the Abbott-Turnbull-Morrison period. Gross corporate profits grew 83% over the last six years – three times as fast as aggregate nominal wages. And as a share of the total economy, corporate profits swelled to unprecedented heights. In 2020, inflated by COVID subsidies (including JobKeeper payments, misused by many corporations), corporate profits exceeded 30% of GDP. Even today, after the elimination of emergency COVID measures, profits capture 28% of total GDP, far higher than any other period in the postwar era.[4]

Contrary to 'trickle-down' economic theory, the diversion of vast sums of income into the coffers of large businesses has not led to stronger reinvestment, innovation, or growth. To the contrary, the combination of record-high profits and record-low business investment is creating an enormous, contractionary imbalance in Australia's macroeconomy.

Figure 2 illustrates the growing gap between corporate profit and business investment (both measured before deducting depreciation). During and since the pandemic, barely one-third of total corporate profits were being reinvested in new investment (including structures, machinery, and IP). In the March quarter of 2022, total business investment represented just 37 cents of each dollar in gross corporate profit. The rest is hoarded by corporations, paid out to shareholders in dividends and share buybacks, or invested overseas. Indeed, the last two years have recorded the lowest business reinvestment rates in Australian history; by contrast, in the initial postwar expansion (from the 1950s through the 1970s), businesses routinely invested over 100% of their profits in new projects.

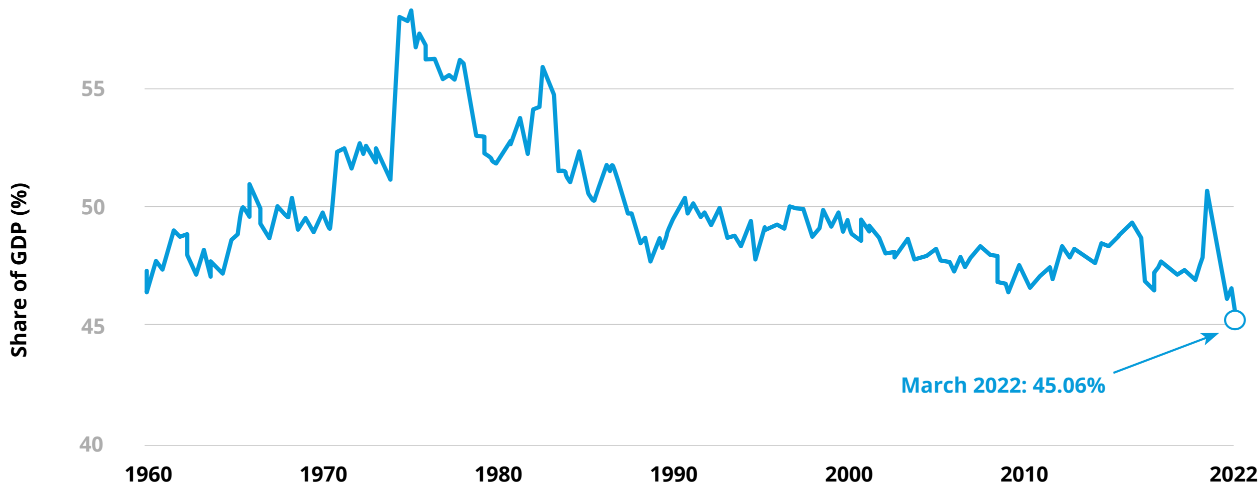
Figure 2. Business Profit and Business Investment Under the Coalition



Source: Calculations from ABS National Accounts, Tables 3 and 7.

3 Measured by business investment intellectual property assets as a share of GDP; calculations from ABS National Accounts, Table 3.
4 Gross corporate profits averaged 19% of GDP from 1960 through 2000, falling as low as 15% in the mid-1970s; calculations from ABS National Accounts, Table 7.

Figure 3. Labour Compensation as a Share of GDP



Source: Calculations from ABS National Accounts, Table 7.

This confirms that the many business-friendly fiscal, regulatory, and labour policies implemented by the Coalition had nothing to do with 'growing the pie': rather, they were motivated by an effort to redistribute the pie, from workers to businesses and their owners. The gap between profits and investment is not just a moral failure. It also constitutes an enormous macroeconomic drain: some $400 billion worth of corporate profits this year alone will not be reinvested in new capital investment projects. That represents a painful leakage of spending power from the economy, holding back growth, job-creation, investment, and competitiveness.

In contrast, in the face of chronic underutilisation of labour, the crisis of insecure work, and deliberate attacks on wage-supporting institutions (like collective bargaining), Australian workers endured the weakest growth in their wages in postwar history under the Coalition. Since 2013, nominal wages have grown at an average annual rate of barely 2%, half the typical pace of earlier years.[5] This was not an accident. It was the deliberate consequence of the expansion of insecure work in all its forms (casual, fixed term, contracted-out, and more recently on-demand gig work), the rapid erosion of collective bargaining, inadequate minimum wages, and punitive pay caps imposed on public sector workers by governments.

For most of the Coalition's time in government, even this record-slow wage growth was at least sufficient to keep up with consumer prices. Indeed, largely because of weak wages, CPI inflation remained consistently below the official 2.5% target of the Reserve Bank of Australia. From September 2014 through to June 2021, Australia's year-over-year inflation rate fell below the RBA's target for 27 quarters in a row – by far the longest one-sided miss in the history of the inflation-targeting system. RBA leaders repeatedly blamed weak wage growth, and the policies contributing to it, for failing to reach its target.[6]

Nevertheless, even when slow wage growth was offset by slow inflation, the result was a lasting stagnation in real wages (and real living standards) that was both unfair and economically damaging. Now, with faster inflation since the re-opening of the economy after Covid lockdowns, long-term weakness in nominal wages has tipped over into a rapid decline in real wages, and a corresponding crisis in the cost of living.

The consequences of long-term wage stagnation during the Coalition era for workers, their families, and society are obvious and well-known. Weak wage growth imposes harsh financial stress on households. It undermines consumer spending and aggregate demand. It destroys the motivation for workers to participate actively in productivity-enhancing workplace innovations (since there is no 'payoff' for them in higher real wages, as discussed further below). And it further discourages already-weak business investment in machinery and technology, because labour is kept artificially cheap.

Combined with ongoing improvements in productivity and total output, record-slow wage growth (and the stagnation of real wages) produced a decline in workers' share of total economic output, the mirror image of the record increase in the profit share. As illustrated in Figure 3, the labour share of Australian GDP had been shrinking for decades – the intended result of measures to suppress wage growth and redistribute income to profits. However, that decline in the labour share set new records under the Coalition's aggressive efforts to further restrain wages and boost profits. By the March quarter of 2022, total labour compensation (including wages, salaries, and superannuation contributions) accounted for just 45% of national GDP – the lowest since records have been kept.

5 See Andrew Stewart, Jim Stanford, and Tess Hardy, *The Wages Crisis: Revisited* (Canberra: Centre for Future Work), for a comprehensive review of the dimensions and causes of wage stagnation since 2013.
6 See, for example, Philip Lowe, evidence to House of Representatives Standing Committee on Economics, Parliament of Australia, Sydney, 16 February 2018.

This ongoing redistribution of income from workers to businesses has been further accentuated by the events of the COVID-19 pandemic and the end of lockdowns. Compared to 2019 averages, the share of corporate profits in total GDP has grown by almost 3 more percentage points. As in the past, that additional income came mostly at the expense of workers, whose share of total GDP declined by 2.2 percentage points. The share of GDP going to small business has also increased, though less dramatically than for corporations. Clearly, the common portrayal that all businesses are squeezed by rising costs (including labour costs), and have 'no choice' but to pass on higher costs to consumers, does not stack up. Business profits have increased markedly, in spite of, or in large part because of, accelerating inflation.

The deliberate redistribution of income from labour to capital is not just unfair: it also creates major economic problems and risks. The relative importance of profit payouts in Australia's economy (primarily due to the eroding labour share) has changed the dynamics of price determination: increased profit margins now play a leading role in causing inflation, as is evident in recent data. The eroding labour share also correlates with rising personal income inequality in Australia. Groups with lower average incomes (including women, young workers, indigenous communities, and immigrants) have experienced the effects of stagnant wages especially severely. Growing inequality, in turn, produces a wide range of serious economic, fiscal and social problems.

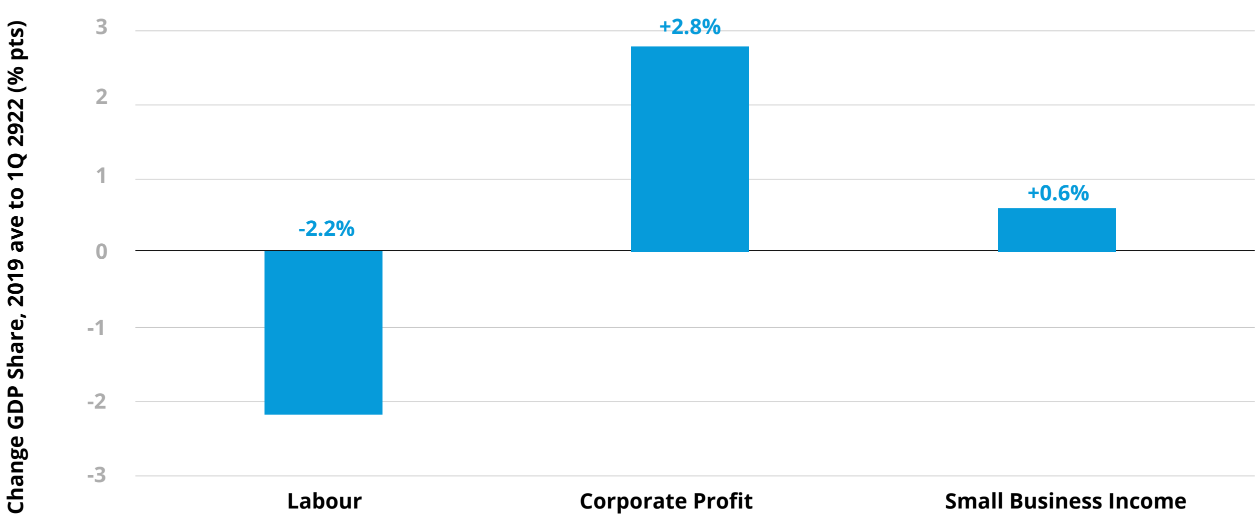
Since the Covid-19 lockdowns and subsequent re-opening, unemployment and underemployment have fallen substantially. This is a positive development, that reflects a complex mixture of factors.

Strong aggregate demand conditions (underpinned by the income supports paid to Australians during the pandemic) have spurred spending, activity, and employment. Restrictions on immigration (especially short-term migrant labour programs, often abused by employers to access cheap and insecure labour) have also contributed to lower unemployment.

It is clear, however, that tighter labour market conditions alone will not solve the problems of wage stagnation and insecure work that became increasingly apparent over the past decade. Even as the unemployment rate declined in late 2021 and early 2022, nominal wage growth for Australian workers remained stuck at near-historic lows – growing just 2.4% over the 12 months to March 2022. Macroeconomic policy needs to maintain very low unemployment as its top priority. But that must be supplemented by measures to ensure that Australian workers can fairly share in the fruits of economic growth, with sustainable real wage increases, and improvements in the security and quality of their jobs.

Restoring balance in Australia's labour market and equipping workers with the tools and bargaining power to win better wages and conditions, is therefore not just a matter of industrial relations policy. It must also be a central goal of macroeconomic policy, too. Indeed, regulating the aggregate distribution of income – rebuilding labour's share of GDP, and ensuring that all segments of society share in prosperity – is an essential precondition for strong, sustained macroeconomic progress.

Figure 4. Changing Factor Shares During the Pandemic



Source: Calculations from ABS National Accounts, Table 7.

Profits

PROFITS HAVE GROWN THREE TIMES FASTER THAN WAGES SINCE 2016

Paying Wages

3. A NEW MENACE: RISING INFLATION, FALLING LIVING STANDARDS, MONETARY AUSTERITY

The acceleration of inflation since the re-opening of the global economy after Covid lockdowns has created a new set of macroeconomic risks and threats. Some of these risks reflect the increase in inflation itself, but others arise from misguided responses to inflation. With central banks around the world (including Australia) rapidly lifting interest rates to reduce spending, slow growth, cool off labour markets, and reduce price pressures, a painful economic slowdown is imminent.

Initial inflation was clearly a consequence of the Covid pandemic and its aftershocks. Factors driving that initial surge in prices included:

- Covid-related disruptions in global supply chains for important inputs and commodities: including semiconductors, cars, and electronic equipment, all experiencing shutdowns or cutbacks in production. That led to higher prices for critical products in short supply. Due to continuing Covid restrictions in China, these supply disruptions are still being felt.
- Supply disruptions were exacerbated by border restrictions and other Covid-related policies constraining international transportation and shipping.
- Floods and other climate-related disasters have reduced production of many agricultural products, in Australia and elsewhere – reinforcing upward pressure on prices.
- Consumer buying patterns changed during the pandemic, with a major shift towards merchandise purchases (like building materials and home electronics) to replace services (such as hospitality and travel) that were inaccessible during Covid restrictions.
- Because consumer spending was originally curtailed for several months, many consumers had pent-up demands for purchases. The re-opening of the economy thus led to a surge in spending power as consumers made up for lost time.
- Surprisingly, aggregate consumer disposable income increased during the pandemic, and this provided additional spending power that reinforces higher prices. The increase in incomes reflected large and successful income supports during the initial lockdowns (including JobKeeper and the Coronavirus Supplement). Equally important, the ultimate downturn in employment and wage incomes during the lockdowns was much less severe than originally feared (largely because of the success of those income supports and other stimulus measures). Increases in income and savings reinforced the impact of pent-up consumer spending on overall aggregate demand and hence prices.
- Finally, sharp but likely temporary increases in world petroleum prices – nominally sparked by Russia's invasion of Ukraine[7] – have been a leading source of recent inflation. Petrol prices in Australia rose 68% in the two years ending in June, the largest single contributor to higher inflation. Prices for gas and electricity in Australia (both of which are produced domestically, and hence not directly affected by events in Ukraine) have also soared – alongside the profits of energy companies.

7 The invasion itself did not reduce aggregate global petroleum supply, which has increased since the invasion began. For example, the U.S. Energy Information Administration projects total world petroleum supply of over 100 million barrels per day in 2022, up 5 million barrels from 2021, and expects another 1.2 million barrel increase in 2023; Russian production has grown this year, supplemented by additional output from other producers (see U.S. Energy Information Administration, Short-Term Energy Outlook Data Browser, July 2022, https://www.eia.gov/outlooks/steo/data/browser/#/?v=6&f=A&s=&ctype=linechart&maptype=0&id=). But the operation of speculative global oil markets creates volatile upward and downward movements in prices on the basis of perceptions, expectations, and fear – not real supply and demand.

By June 2022, overall consumer price inflation in Australia reached 6.1% compared to a year earlier. This is more than twice the growth in wages up only 2.4% in the year to March 2022, most recent data available).[8] This translates into a decline in real wages of 3% or more in 2022 alone (see Figure 5), with more to come. Based on Treasury projections, average real wages by the end of the 2022-23 financial year will be back to the same level they were at in 2010.

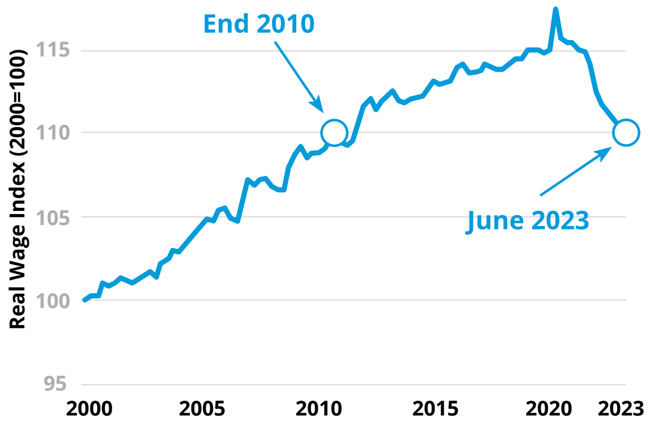
Accelerating inflation is contributing to a cost of living crisis for Australian workers and their families. But it is important to remember there are two parts to this crisis: one is rising prices, which are even worse for the non-discretionary purchases that make up a larger proportion of workers' total spending. The other is the long period of wage stagnation that led up to the current juncture. As noted above, Australian wages had been growing at the slowest pace in postwar history for the better part of a decade before Covid-19 arrived on our shores. This produced a stagnation in real living standards that has now tipped into an outright, painful decline.

In this context, taking sensible and fair measures to reduce inflation is just part of the necessary response to current cost of living challenges. Another element must involve protecting the most vulnerable Australians against its effects. And we must also reform the practices and institutions of Australia's labour market, so that wages grow faster – keeping up with current price rises, and repairing the legacy of a decade of wage suppression and stagnation in living standards.

The original sparks for recent inflation were clearly extraordinary and temporary side-effects of the pandemic. The initial judgment of central banks and others around the world that they would not spark sustained, generalised inflation was not unfounded. Indeed, there are already signs that many of those initial sources of price pressure are already abating: as suggested by moderating world prices for energy, shipping, and many agricultural and industrial commodities.[9] Similarly, CPI growth during the March 2022 quarter was 2.1%, but has now eased slightly to 1.8% during the June 2022 quarter.

For the entire global economy to be thrown into a deliberate slowdown, or even recession, to reduce inflation that is clearly the side-effect of an unprecedented worldwide health catastrophe, reflects badly misplaced priorities. To be sure, inflation is a problem, particularly for workers. But these same workers also face severe risks of losing their jobs and incomes altogether in a recession. The assertion that inflation must be reduced no matter what the damage to other economic goals must be rejected.

Figure 5. Real Wages Back to 2010



Source: Calculations from ABS Wage Price Index, Table 1, Consumer Price Index, Table 1, and Treasury projections.

After some months of delay and indecision, central banks in Australia and elsewhere have been fighting inflation with single-minded zeal. At time of writing, over 50 central banks around the world have increased interest rates this year, led by especially aggressive upward moves in the U.S., Canada, and Australia (see Table 1).

These increases in interest rates, applied indiscriminately to all borrowers (whether making productive real investments or speculating on financial assets), will have harsh effects on the economy. Asset markets have been roiled by higher rates and the slowing flow of cheap credit assets: equity markets have fallen into 'bear' territory in most countries (including Australia), and more speculative assets (like cryptocurrencies, high-yield debt, and emerging market bonds) are teetering on the verge of meltdown. Property prices, inflated by years of ultra-low interest rates, are also turning down sharply. While this might seem to ease the housing affordability crisis, for most buyers any savings will be offset by higher interest costs. The impact of higher interest rates on real spending and investment will take longer to be fully felt (likely between 12 and 18 months), but that, too, will be painfully contractionary: reducing business investment and spending on consumer durables.

As a result of this aggressive monetary austerity, the global economy is slowing down sharply. After an encouraging rebound in 2021, global GDP growth is expected to be cut in half in 2022: from 6.1% last year to 3.2% this year.[10] The U.S. economy has already entered a technical recession, with real GDP declining in both the first and second quarters of 2022. The World Bank expects this year to mark the sharpest single-year downturn in world growth in 80 years.[11] Most frustrating is that this potential recession, like others caused by overzealous monetary policy in the past, is not an accident, but the outcome of deliberate policy.

8 Treasury forecasts expect wage growth to have picked up slightly to 2.75% by the end of the June 2022 quarter, and to accelerate to 3.75% by June 2023 – still well below inflation. See The Hon Dr Jim Chalmers, "Ministerial Statement on the Economy," 28 July 2022.
9 See, for example, Ryan Dezember, "Falling Commodity Prices Raise Hopes That Inflation Has Peaked," *Wall Street Journal*, 4 July 2022; Sing Yee Ong and James Poole, "Food Inflation Fears Abate as Cooking Oils and Grains Plummet," *Bloomberg News,* 5 July, 2022; and Augusta Saraiva, "Companies See Relief in Falling Spot Rates for Transpacific Freight," *Bloomberg News,* 23 June, 2022.

10 International Monetary Fund, *World Economic Outlook Update*, July 2022.
11 World Bank, *Global Economic Prospects*, June 2022, p.3.

Australia will not be immune to a global slowdown, which will be transmitted to our economy through both global and domestic channels. Demand and prices for Australia's exports will fall; this is already visible in the 35% decline in world iron ore prices – Australia's biggest export – since April. Domestic interest rate hikes are cutting into property prices, construction activity and purchases of durable goods. Business investment – already at post-war record lows (as shown above) – will fall further. Australian consumer spending will be squeezed between falling real wages and higher interest expenses. There is a risk that those contractionary forces could be amplified by reductions in government spending, if political leaders are unduly focused on reducing deficits even as the economy slows.

Responding to current inflation is more difficult because of Australia's overreliance in recent decades on interest rate adjustments as the dominant macroeconomic lever. Under neoliberal theories, active countercyclical fiscal policy fell out of favour, as did other tools which could potentially address inflation (such as price regulations, low-cost public service delivery, labour market planning, and others). In the hands of a supposedly 'independent' central bank, it was assumed that interest rate adjustments alone could guide the economy to an optimal position. That position is defined by a desired, 'efficient' level of unemployment: namely, the mythical 'NAIRU',[12] high enough to restrain wage demands while still allowing sufficient vitality in the economy to validate business profits.[13]

Over-reliance on interest rates as the main lever of macroeconomic policy creates problems when the economy is weak, not just when it is strong. Near-zero interest rates, kept in place for many years after the Global Financial Crisis of 2008-09, were a symptom of the weak structural condition of the economy (including weak business investment and slow wage growth). But sustained low interest rates soon lost effectiveness in stimulating real work and production, and produced many undesirable side-effects: including a property price bubble, and asset price inflation that enriched the wealthiest elite in society. A weak economy needs much more than low interest rates: it also needs strong government spending, fiscal incentives, active industry strategies, and appropriate regulation. A strong economy needs all those policies, too – not just *higher* interest rates.

Interest rate adjustments are a powerful but blunt instrument for regulating the macroeconomy. They make all borrowing more expensive, without distinguishing whether supported spending is useful (such as real investments in supply chains, infrastructure, aged care, and new housing) or wasteful and distorting (such as property or financial speculation). They impose great harm on those who can afford it least: indebted workers and families. Higher rates will certainly reduce inflation, but at the cost of jobs, foregone investment, and real human hardship that will be felt for many years to come. In announcing its latest 0.5 point interest rate increase, the RBA affirmed that "the Board is committed to doing what is necessary to ensure that inflation in Australia returns to target over time."[14] That steely resolve is intended to reassure financial markets of the Bank's zeal for wrestling inflation to the ground; but it is an ominous warning for Australian workers, because it means the Bank is both willing and able to cause a recession and cost jobs if that's what it takes to reduce inflation.

Instead of relying on a solitary blunt instrument, under the unilateral control of one particular institution, Australia needs a more multi-dimensional, balanced, and ultimately democratic approach to achieving tolerable inflation (alongside other important macroeconomic objectives).

Table 1: Global Interest Rate Adjustments in 2022

Central Bank	Current Rate	Change This Year	Next Decision
US Federal Reserve	2.25-2.50	+2.00	Sept. 21
European Central Bank	0.00	+0.50	Sept. 8
Bank of England	1.25	+1.00	Sept. 15
Bank of Japan	-0.10	None	Sept. 21
Bank of Canada	2.50	+2.25	Sept. 7
Reserve Bank of Australia	1.85	+1.75	Sept. 6

Source: Compilation from individual central bank websites.

12 Non-Accelerating Inflation Rate of Unemployment, also commonly (and perversely) known as the 'natural rate' of unemployment.
13 For a thorough critique of the NAIRU and associated macroeconomic theories, see David Richardson, *Tolerate Unemployment, but Blame the Unemployed: The Contradictions of NAIRU Policy-Making in Australia* (Canberra: Centre for Future Work, 2019).
14 Reserve Bank of Australia, "Statement by Philip Lowe, Governor: Monetary Policy Decision," 2 August 2022.

The last section of this paper will consider some of the elements of a more complete and balanced anti-inflation strategy.

In the meantime, as government works to address the true sources of recent inflation, workers must be protected against its effects by ensuring that real wages are not sacrificed. RBA Governor Lowe, many conventional economists, and business lobbyists have all argued for continuing wage restraint in the face of high inflation (on top of the significant fall in real wages already recorded). This is an extraordinary about-face for the RBA Governor, who for years acknowledged that wage growth was too slow to meet the RBA's 2.5% inflation target. Now, suddenly, he frets wages will be too high – even though a near-decade of real wage stagnation set the stage for current real wage decline.

There is no evidence that wages caused the current upsurge in inflation. On the contrary, wages have had a moderating impact on prices. Nominal wage growth remained slow throughout the pandemic, always well below the RBA's 2.5% target. Moreover, ongoing productivity growth (which, as discussed below, picked up speed after the pandemic) further reduces labour costs for employers. Unit labour costs are a better measure than wages of the ultimate impact of labour costs on production costs. Unit labour costs grew even slower than wages: by just 2.1% over the most recent 12 months (see Figure 6). Workers, in essence, have helped to reduce inflation over the last year, by being compensated less for each unit of their output than would be consistent with the RBA's inflation target.

Accelerating inflation is clearly not associated with wages. There is, however, a clear link between rising prices and swelling profit margins. As documented above, profits increased dramatically as inflation picked up steam, indicating that firms are not just 'passing on' higher costs to consumers. Rather, they are taking advantage of supply disruptions and strong buying power to jack up prices much more than higher input costs would require.

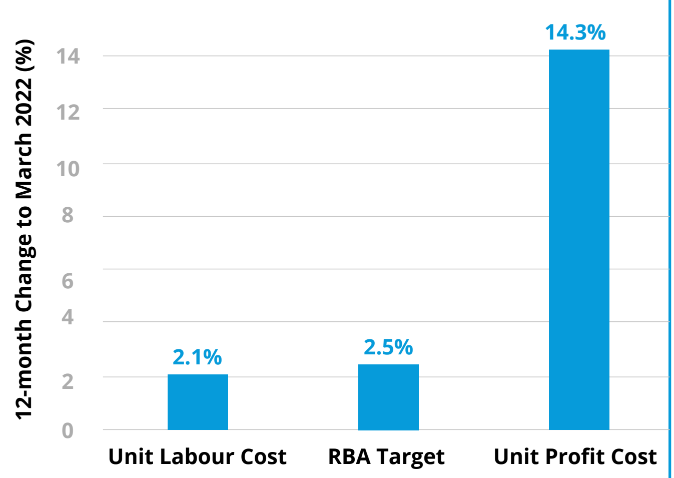
Consider a measure of the proportional profit built into each unit of output, called 'unit profit cost'. This measure is not reported by the ABS, nor obsessed over by the RBA, but it should be. Since the share of profits in total GDP has expanded so dramatically in recent years, profits are much more important as a component of prices – and hence inflation – than in the past.

Unit profit cost (measured by the level of profits per unit of real GDP)[15] has shot up 14% in the last 12 months alone. If the RBA and other policy-makers want to identify the true culprit behind current inflation (beyond the transitory supply disruptions discussed above), they need to confront the price-setting power of large corporations. Blaming workers for inflation, and then burdening workers (with higher interest rates, higher unemployment, and declining real wages) to solve it, is neither morally justifiable nor economically rational.

Workers can and should be protected against the impacts of current inflation on their real wages and living standards. Wages can be lifted to match inflation, without causing further acceleration of prices, or even 'locking in' current elevated inflation rates. And since profit margins have swollen to record proportions during the current inflation, it must be acknowledged they will eventually need to return to historic norms – and hence it cannot be assumed that all wage gains in the future must automatically be passed on in higher prices (some will need to be reflected in normalised profit margins).

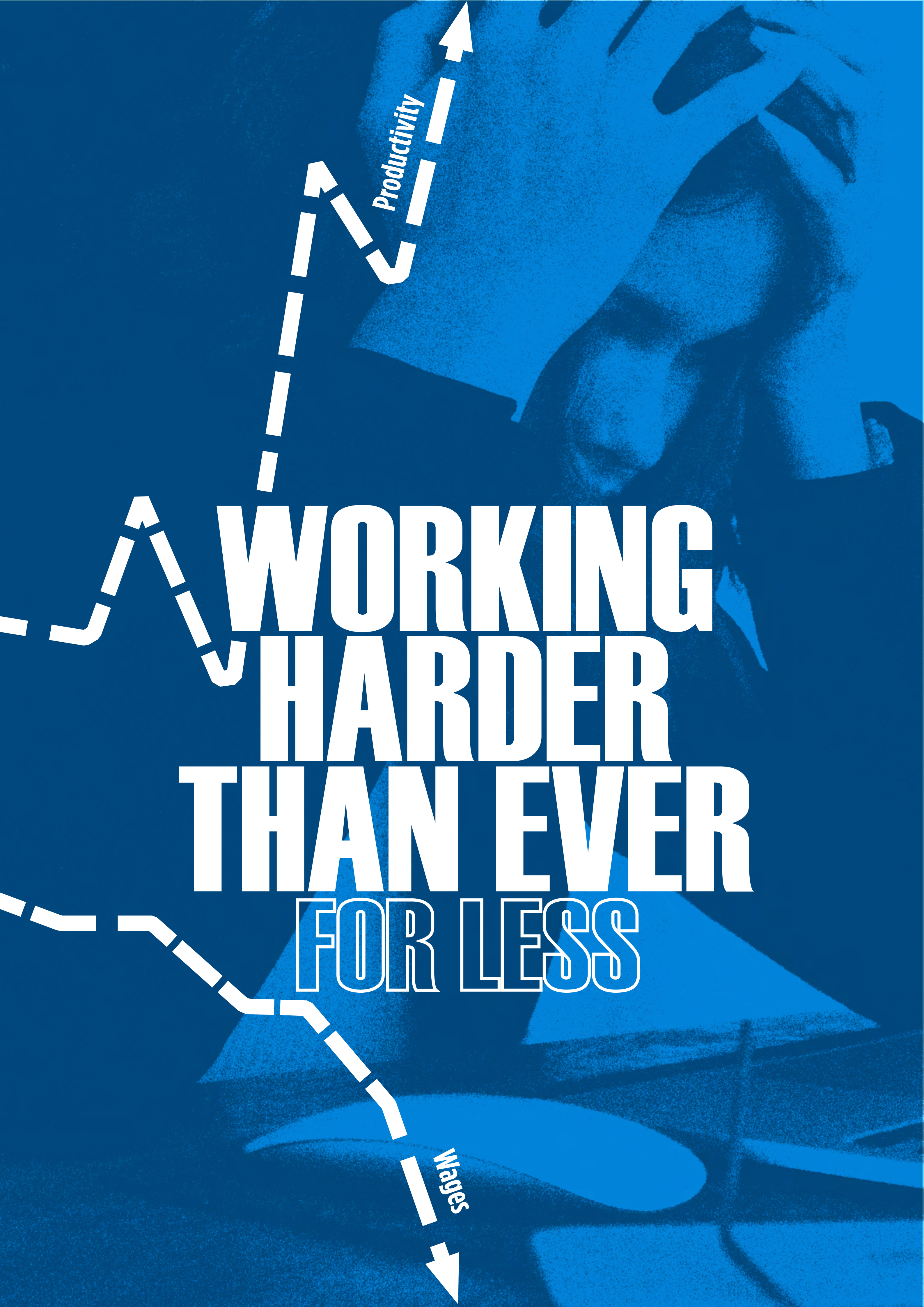
In sum, since recent inflation bears no relationship to wages, there is no reason to believe that suppressing wages in coming years will bring inflation down. Australian workers will not accept a permanent reduction in their standard of living to solve a problem they didn't create – and that has enriched the employers they work for.

Figure 6. Labour Costs, Profits and Inflation



Source: Calculations from ABS National Accounts, Tables 2, 7 and 42.

15 See Jim Stanford, "Profits push up prices too, so why is the RBA governor only talking about wages?", *The Conversation*, 26 June 2022, for more discussion.


Productivity
WORKING
HARDER
THAN EVER
FOR LESS
Wages

4. PRODUCTIVITY: NO MAGIC BULLET

Discussions about developing Australia's economy, and sharing the gains of growth fairly, often become embroiled in complex and misleading claims about productivity. There can be no wage growth without matching productivity growth, it is claimed by business leaders and corporate lobbyists. This obscures the actual problem in Australia: namely, that there has been steady productivity growth, but without wage growth.

Another version of the same argument claims the key to revitalising Australian wages is to strengthen productivity growth. That will create a bigger economic pie, it is suggested, which can then be equitably shared with workers.

It's hypocritical, but not surprising, that this productivity argument never seems to apply to profits. Relative to Australia's actual output, the amount of profit paid out for each dollar of GDP grew by a stunning 60% between 2016 and 2022. Has anyone asked what sort of 'productivity' improvements by corporations and their owners underpin their rapidly expanding incomes?

In short, more often than not, simple claims of 'productivity' are used as an ideological weapon to beat back workers' legitimate demands for better wages and secure jobs. The Jobs Summit is likely to feature a great deal of discussion about productivity. So let's look at the real facts about workers' productivity, and its connection (or lack thereof) to wages.

First, we must clarify the concept of productivity – because it is mis-used so often. Often the term is bandied about by some employers to refer to any sort of cost reduction or belt-tightening in a workplace: anything that reduces expenses and increases profits is somehow justified in the name of productivity. Some employers even define a wage cut as a 'productivity measure', which is nonsense. Productivity has nothing to do with wage cuts and other cost restraint. To the contrary, wage cuts usually make productivity worse, not better.

Properly defined, productivity refers to the level of real production (output of goods and services, adjusted for inflation) achieved for a given quantity of the inputs used in production. The most common, and most sensible, way to measure productivity is per unit of labour (an hour, or a year, of work) required to produce that output. This is appropriate, since it is labour – across all industries and occupations, both direct and indirect[16] – that is ultimately responsible for all value-added in the economy.

Labour productivity is also most relevant for considering the relationship between production and income distribution in the economy. The vast majority of Australians work for a living, in return for wages and salaries. Understanding the growth of their productivity over time – and ensuring that it is matched by improvements in their real standard of living – is a vital prerequisite for achieving inclusive economic growth. Labour productivity is the only measure that makes sense in this context.[17]

Finally, we must also remember the true goal of productivity, which is more than just churning out a greater quantity of goods and services. We need to take proper account of the quality, accessibility, and sustainability of production. We don't improve productivity in education, for example, by cramming twice as many students into each classroom – or in a hospital, by overloading nurses and other health workers with too many patients. And we don't improve productivity by running down the natural environment in a rush to extract and export as many non-renewable resources as we can.

16 Indirect labour refers to the labour input required for the production of intermediate goods (including raw materials, parts, supplies, and capital equipment) used in production.
17 There are other concepts of productivity, such as 'total factor productivity', that are impossible to directly measure, have questionable theoretical underpinnings, and provide no insight to wage determination.

For these reasons, we must take a cautious, pragmatic approach to understanding productivity, and integrating this concept into our economic and social agenda. With those cautions in mind, let us consider the facts of Australian productivity:

1. **Australian productivity has never been higher.**

   In the first quarter of 2022, each hour of expended labour produced on average $110 worth of GDP.[18] That's the highest ever, even adjusted for inflation. Real output per hour of work (after inflation) has grown 13% in the last decade. The average Australian worker produces more than twice as much output with each hour of labour, than they are compensated in wages, salaries, and superannuation contributions.

2. **Australian productivity growth has accelerated since the Covid pandemic.**

   In the first two decades of this century, leading to the onset of the Covid-19 pandemic, real labour productivity grew at an average annual rate of 1.2%.[19] That wasn't great: slower than in the earlier postwar decades, and well below the average of other industrial countries.[20] Nevertheless, Australian productivity growth was positive and relatively steady. Since end-2019, however, until the first quarter of 2022, real output per hour of labour grew over 6%: for an annual average rate of 2.6% (more than twice the pre-pandemic trend). Many factors contribute to this pickup in productivity growth.[21] One key explanation is low unemployment, and resulting challenges faced by many employers to attract and retain labour. That forces them to use innovative strategies to make the most of the labour they can employ: that's exactly the point of productivity growth, and a good reason why maintaining very low unemployment is such an important priority for macroeconomic policy.

3. **Australian productivity growth has far exceeded real wage growth.**

   Real labour productivity grew 13% over the last ten years. But real wages grew less than 1% in the same period. And with inflation accelerating well ahead of wages, real wages will fall in the months ahead. In other words, a 13% improvement in real labour productivity in the last decade has translated into precisely zero gain in living standards for the workers whose skill and effort explains that productivity. So Australian workers are rightly skeptical that the key to improving real wages is for them to boost their productivity. This has had no effect on their living standards over the last decade, and without fundamental changes in wage determination and income distribution it will have no impact in the next decade, either.

4. **The link between productivity and real wage growth was broken long ago.**

   The experience of the past decade confirms that productivity growth cannot be relied on to deliver higher real wages, in an economic and institutional context deliberately structured to reduce workers' bargaining power. Thus the gap between productivity and real wages widened dramatically over the last decade (see Figure 7). However, the problem goes back further. Since the 1970s, real wages have lagged behind productivity growth. This explains the ongoing decline in workers' share of total GDP since then: growth in compensation has not kept pace with the growth in productivity, and hence the share of output received by workers has declined. As noted above, that share fell to an all-time low of just 45% by early 2022.

5. **Australia's wages crisis is not the result of productivity problems.**

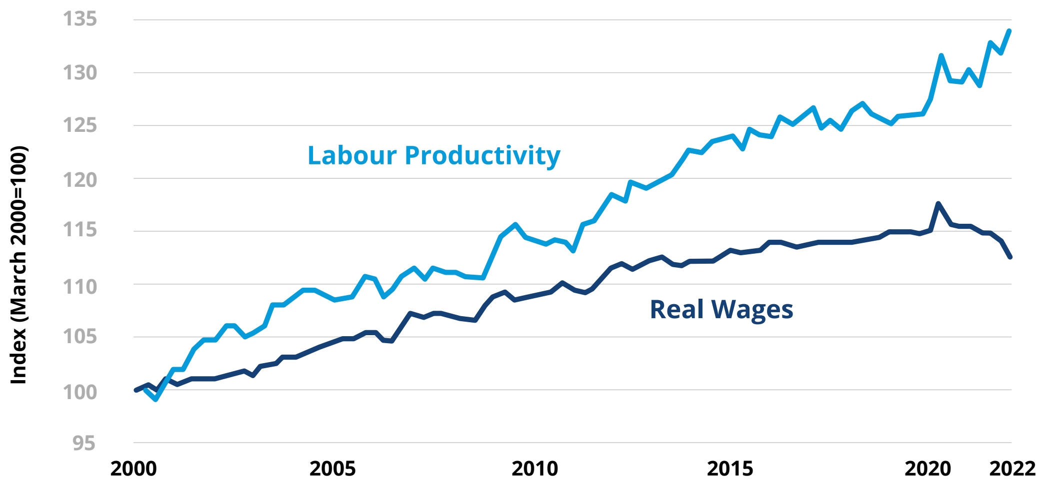
   Given the obvious lack of connection between real wages and productivity growth shown above, the weakness of wages over the past decade – and the outright decline in real wages being experienced now – cannot be blamed on productivity issues. Yes, pre-pandemic productivity growth in Australia was not strong, by historical or international standards. But it was positive, and yet had no trickle-down effect on real wages whatsoever. Productivity increased 13% in the last ten years, and real wages by less than 1%. Suppose productivity had grown 20%? Would real wages be any higher today? There is no credible basis to believe they would be.

6. **Without deliberate measures to link wage growth to productivity improvement, there is no reason to believe productivity growth will lift wages.**

   There are many reasons to improve genuine productivity in the Australian economy. But better productivity alone will not automatically solve the many issues affecting Australian workers, their families and communities. For example, it won't solve the crisis of insecure work that has undermined wages and working conditions for millions of Australians. A deliberate, planned effort to improve job security, lift wages, and fairly share the gains of productivity growth must be an essential component of any vision for achieving a more productive economy.

18 Calculations from ABS National Accounts, Table 7, and Labour Force, Table 21.
19 Calculations from ABS National Accounts, Table 1.
20 Australia ranked 26th among OECD countries in average growth in total economy labour productivity between 2000 and 2019; author's calculations from OECD Economic Outlook database.
21 A detailed study of the factors behind the post-pandemic surge in productivity, based on the US experience, is provided by Robert J. Gordon and Hassan Sayed, "A New Interpretation of Productivity Growth Dynamics in the Pre-Pandemic and Pandemic Era U.S. Economy, 1950-2022," NBER Working Paper #30267 (Cambridge, MA: National Bureau of Economic Research, 2022).

Figure 7. Real Productivity and Real Wages, 2000-2022



Source: Calculations from ABS National Accounts, Table 1, Wage Price Index, Table 1, and Consumer Price Index, Table 1.

Just as there are competing visions of how to measure productivity, there are also competing ideas for how to improve it. Some business lobbyists throw around 'productivity' as a ready-made excuse for doing anything that makes their operations less regulated and more profitable: from restricting union activity to cutting taxes to relaxing safety and environmental rules. Productivity has no connection to any of those predictable business demands, and we reject the misuse of the term as a Trojan Horse for infiltrating more disproven trickle-down ideas into the debate over Australia's economic future.

Ultimately, higher productivity stems from *valuing* labour, not degrading or intensifying it. This ultimately depends on:

» Treating labour as a valuable, scarce input, to be utilised carefully and efficiently – not a cheap, disposable input to be hired and fired as cheaply as possible, on a just-in-time basis.

» Equipping labour with the best tools, capital, and infrastructure possible; this requires a much stronger business investment effort than has been forthcoming from Australian employers over the last decade.

» Investing in world-class skills and training for Australian workers, best delivered through public and accountable institutions (like TAFE), and then ensuring that workers have the opportunity to use those skills in high-value, supported jobs (tragically, millions of Australians can't use their hard-won skills because they're underemployed in jobs that don't need them).

Successful, sustainable productivity growth therefore requires higher wages and more secure jobs, much stronger investment in capital and technology, in the care economy and improvements in public education and other public services. Sustained productivity growth can then underpin ongoing improvements in real living standards – including both private consumption and improved public services. But productivity growth alone is no guarantee that those gains will be realised. As shown above, in the last decade real wage growth has been non-existent, despite continuing (and, more recently, accelerating) productivity growth.

In short, the broken link between productivity and living standards must be repaired and a broader concept of productivity understood. That is the only way to show Australians concretely that a more productive economy will indeed result in better lives for them and their families.

5. FOR A MORE BALANCED AND EFFECTIVE ECONOMY

This is an opportune moment to envision a more balanced, inclusive, and democratic approach to managing Australia's macroeconomy.

The Covid-19 pandemic is not over, and will continue to impose unique challenges to work, supply chains, and prices. Governments have played a central role in helping Australians through the pandemic so far, and that hands-on approach must continue in future years. Current low unemployment creates pressure for employers to more fairly value the labour they depend on, and for workers to demand and win more respect, security, and fairness in their jobs. However, a darkening global economic outlook could quickly reverse this progress. A new Commonwealth government has a strong mandate to achieve fairer economic and social outcomes, and many of its initial actions in this regard have been encouraging. This includes lifting Commonwealth public service pay caps, legislating paid leave for victims of family and domestic violence, supporting a strong rise in the national minimum wage, and restoring paid pandemic leave.

Given these opportunities and challenges, the Jobs Summit will need to consider bold steps in macroeconomic policy that both grapple with immediate threats (including falling real wages and post-lockdown inflation) and achieve the Government's broader mandate of inclusive, fair economic growth. To that end, the union movement will be advancing several important themes in macroeconomic policy at the Summit, including:

1. **Establish full employment in decent jobs as the top national macroeconomic priority.**
   Supporting all willing Australians to work, in secure, fairly compensated jobs, is the precondition for prosperity. Past austerity was premised on the harmful assumption that a certain 'desired' level of unemployment was necessary to keep workers in line and facilitate business strategies. Now, with unemployment at a historically low rate, Australians have a taste of how the labour market should operate. Even though Australia has not yet reached full employment, knowing that work is readily available is already changing the mindset, and enhancing the life prospects, of Australians in all walks of life. This is especially important for young people, who in many cases have resigned themselves to an endless series of insecure jobs and gigs as their vocation. Current low unemployment should be entrenched, and reduced even further, with government committing to full employment as its overarching macroeconomic priority.

2. **The Reserve Bank, with a reformed mandate and operational strategy, to work with other government agencies to achieved balanced objectives of full employment and moderate inflation using a wider range of policy levers.**
   The commitment to full employment needs to be reflected in the mandate given to the Reserve Bank, as well. Its efforts to control inflation must be undertaken in a multidimensional framework, in which other policy levers (not just interest rates) are used to regulate inflation, and in which the goal of reaching target inflation is balanced with other macroeconomic goals (particularly preserving full employment). In this context, managing inflation can no longer be seen as just the RBA's job. The government needs to play an active role, as well, through fiscal policy, public investment, industry policy, regulation, and labour market policy. The RBA's operational structure needs to reflect this multidimensional and more balanced vision: it should be required to consult and act in concert with other government agencies in achieving an overall macroeconomic package that is consistent and effective in targeting both inflation and full employment. And the RBA (in conjunction with other government agencies, such as APRA and the Council of Financial Regulators) should more actively invoke other policy levers (such as prudential standards in mortgage lending), not just the basic interest rate, to influence the flow of credit to more useful purposes, while limiting speculative or unproductive borrowing.

3. **Implement a fairer inflation-reducing policy that protects workers' incomes, prevents price gouging, and tackles the underlying sources of inflation, especially in energy and housing, and reduces the cost of key public services such as early childhood education and care.**

   If inflation control is no longer the sole responsibility of the RBA, and no longer dependent solely on interest rate adjustments, then the Commonwealth government needs to design and implement a more effective and comprehensive inflation strategy alongside the RBA's actions. This policy should include several key elements:

   a. Workers and low-income Australians must be protected against falling real incomes while the true causes of current inflation are tackled. This means wages must keep up with inflation, and social benefits and income supports (such as JobSeeker, Aged Pension, and child benefits) must be fully and promptly indexed to the actual consumer prices paid by recipients.

   b. Some key prices (such as prices for energy) should be directly regulated to prevent price-gouging and limit inflationary pressures. Most industrial countries regulate prices for electricity and gas in line with long-run supply costs (rather than the booms and busts of private energy markets). Australia should do the same to protect consumers against the rapacious behaviour of private energy oligopolies, up to and including placing key segments of the energy industry back in the hands of public ownership. Similar approaches can help to reduce inflationary pressure in other heavily concentrated industries (such as telecommunications or transportation).

   c. The biggest single sources of recent price inflation reflect the failure of government policy to facilitate the roll-out of affordable supply of key commodities. Key examples are energy and housing. Inconsistent and contradictory energy policies during the Coalition's time in office slowed Australia's transition to renewable energy sources, and prolonged our dependence on fossil fuels – with devastating impact right now, given skyrocketing petrol and other petroleum-related prices. Speeding the transition to renewable sources (which are not subject to price volatility… in fact, their primary energy sources are free!) will reduce our vulnerability to future fossil fuel price shocks. The same is true of housing, which has been distorted by private speculation and price bubbles fueled by once-cheap credit. Active and fair housing supply initiatives (such as expanding public and social housing, using zoning laws to promote affordable developments, rent controls, and regulating housing credit to channel available funds to more affordable projects) would help release the 'steam' from Australia's inflated property market. That would both bring down inflation, and make it easier for more Australians to achieve stable housing.

   d. Making public services more accessible and affordable can further reduce inflation. When the previous government temporarily eliminated parent fees for child care in the early stages of the pandemic, the CPI fell in concert; when it reversed course and reimposed those fees, the CPI began to surge. Making Early Childhood Education and Care and other public services (such as aged care, public transit, and others) more affordable (or even, in some cases, free) would bring down inflation, and allow Australians to access these essential services more fully.

   e. Public investment and structural reforms can contribute to improved supply chains and infrastructure. A self-defeating aspect of lifting interest rates to combat inflation (caused significantly by supply chain problems) is that it will discourage investment (both public and private) in new facilities, logistics systems, and infrastructure – the very things necessary to resolve those supply chain bottlenecks. Government should expand its investments in infrastructure (including all modes of transportation facilities), and use fiscal and other incentives to accelerate private supply chain investments.

4. **Use active fiscal policy to help achieve and maintain full employment, decent jobs, and stable prices.**

   Active fiscal policy (discretionary changes in taxes and spending) has been de-emphasised in orthodox macroeconomic policy in recent decades, in favour of leaving most macroeconomic management to the central bank and its powerful interest rate lever. The dramatic events of the Covid-19 pandemic, however, showed again the importance and efficacy of fiscal policy in countering major economic shocks; previous experience (such as Australia's uniquely successful navigation of the GFC in 2008-09) also confirm the value of active fiscal policy. The Commonwealth government should invoke fiscal policy levers to both contribute to the task of managing current inflation (specific examples are provided below) and maintaining full employment (especially in the event that current monetary austerity causes another recession).

5. **<u>Regulate labour markets so that real wages rise in tandem with labour productivity and support the maintenance of full employment.</u>**

The fundamental idea underlying conventional monetary policy is that when unemployment falls below the so-called NAIRU, wages will grow too quickly, causing inflation; interest rates must be used to keep unemployment at or above this (unobservable) magic level, to keep inflation at its desired rate. There are many problems with this theory: including the lack of predictable relationship between unemployment and wage growth in recent years, the fact that inflation can be caused by many factors other than wages (as current experience confirms), and the enormous collateral damage caused by anti-inflation monetary austerity. Instead of relying on the perpetual existence of a pool of deliberately unemployed workers to regulate overall price pressure in the economy, we need a more rational and productive strategy. This must involve pro-active labour market policies to support wage growth at reasonable and sustainable rates. In the long-run, to avoid accelerating inflation (even with low unemployment) and stabilise factor shares in income distribution,[22] real wages should grow at least as fast as labour productivity. The best way to achieve this is by rebuilding a multidimensional capacity to regulate wages in line with inflation, productivity, and other relevant determinants. Essential to this is rebuilding collective bargaining which is the engine room of wages growth and productivity discussions. This engine room is now entirely broken, the system is outdated and failing to deliver on just about every measure. Nothing will change unless it is modernised. It needs more than patching in order for workers and employers to fairly negotiate wage gains that reflect economic reality in various occupations and sectors. This allows policy to support wage growth when the economy is weak (with counter-cyclical effect achieved through stronger consumer spending), but also ensure wage growth is sustainable when the economy is strong and unemployment is low. No longer will the economy need to retain a permanent pool of unemployed workers, in effect held 'hostage' by policy to undermine the wage demands of their employed counterparts.

6. **<u>Use targeted tax measures to cool off aggregate demand pressures in fairer ways.</u>**

Domestic purchasing power is clearly not the main cause of current inflation. And the RBA's use of across-the-board interest rate increases to reduce spending is indiscriminate regarding whose spending will be squeezed. Lower income and indebted families will bear the brunt of that contractionary strategy – whereas high-income households, which do not need to borrow to finance their luxury spending, will hardly notice. A fairer strategy for reducing spending pressure, when that is appropriate, is through targeted tax measures on corporate interests and high-income households. This is doubly fair: not only are those constituencies better able to reduce spending without hardship, but they are the very constituencies that profited from the acceleration of inflation (as discussed above) in the first place. Examples of fiscal measures to reduce excess spending by high-income households and businesses would include:

a. An excess profits levy on energy companies and others enjoying windfall profits as a result of current inflation.[23]

b. Taxes to discourage distributions of dividends and share repurchases by Australian corporations, to reduce the extent to which their excess profits ultimately finance excess consumption spending by their owners.

c. Fiscal measures to encourage stronger business capital spending to strengthen supply chains and infrastructure, and address shortages of key inflation-spurring commodities.

d. Cancel the planned Stage Three tax cuts, which will benefit only higher-income households and exacerbate income inequality and inflationary pressures.

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22 Since the labour share of GDP, as shown above, is at record lows, the current distribution of factor income is not an appropriate benchmark against which to apply this strategy of factor share stabilization; at some point in the future, the profit share needs to be reduced, allowing real wages to grow faster than productivity for some period.

23 The U.K. has imposed a 25% excess profit tax on petroleum companies to recoup some of the surplus captured by those firms as a result of current inflation. Canada imposed a 15% one-year excess profit tax on banks and major insurers which also captured record profits from COVID-related financial supports. Nobel Prize laureate Prof Joseph Stiglitz recently endorsed the idea of an excess profit tax on Australian energy and other oligopolies, calling it a "no-brainer", and new opinion research shows the idea is endorsed by two-thirds of Australians (with only 12% opposed); see Australia Institute, "Origin Doubles Revenue While Public Back a Windfall Profits Tax: Poll," July 29, 2022.

CONCLUSION: A BALANCED AND SUSTAINABLE MACROECONOMY

The agenda for multi-dimensional, pro-active macroeconomic management described above marks a fundamental change from the practice in Australia (and many other industrial countries) over the past generation. In that time, policy has not only tolerated chronic unemployment and underutilisation of the productive potential of millions of workers – it has actually targeted unemployment (and resulting human misery) as a beneficial outcome.

Repeated crises (including the GFC, the Covid-19 pandemic, and now a new global slowdown) have exposed the failure of this model, and its over-reliance on a single, powerful lever (the interest rate) to keep everything (and everyone) in line. Our vision of an economy managed with the use of many policy tools, not just the interest rate, and with the explicit goal of maximising employment and well-being, holds the promise of allowing Australians to achieve a full employment economy, in which the gains of economic growth are fairly shared, prices are managed stably, and the transition toward net zero emissions is accelerated.

After the hardship and uncertainty of the pandemic, Australian workers have appreciated the recent decline in the unemployment rate, and corresponding improvement in job opportunities and job quality. This has not solved all of the problems in the labour market (in particular, wage growth remains far too slow, despite low unemployment). But it has given Australians a glimpse of how their lives would be improved in an economy in which every willing worker can readily find secure, decent employment. We will not now allow that moment of hope to be squandered, as the result of the unthinking and uncaring application of failed theories of monetary austerity. The Commonwealth government must move quickly to prevent another recession, and to reorient macroeconomic policy so that inflation control is rightly treated as just one of several priorities – not an overarching imperative that justifies recession, unemployment, and hardship.

There are many elements of our package that we expect Australian business leaders could support, and we are committed to honestly and in good faith exploring areas of potential consensus at the Jobs Summit, and beyond.

The new Commonwealth government has committed to an economic strategy that values Australian workers, protects and rewards them appropriately for their efforts and skill, and makes maximum use of Australia's productive potential to build a fairer, sustainable economy. We heartily support that vision, and the policy reforms outlined here offer a practical and consistent path to achieving it. At the Jobs Summit and afterward, we commit to participating earnestly, in both dialogue and action, to making this hopeful vision a reality.

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