General Discussion of 'Inflation and Inequality: How High Inflation is Affecting Different Australian Households'

Participants discussed the intersection between income and wealth inequality and monetary policy. It was noted that monetary policy implementation involved the use of 'blunt instruments' (such as changing interbank lending rates) to achieve medium-term goals for price and labour market stability. These tools were generally unsuited to addressing concerns around wealth and income inequality.

Participants considered that balancing price and labour market stability typically involved trade-offs; in particular, in periods where inflation was above target, monetary policy would seek to cool the labour market by slowing the pace of job creation. Any resulting employment losses were likely to have the most negative impact on households with lower income and wealth. A participant noted that a useful framing for public communication on monetary policy in this situation would be to emphasise that when central banks took steps to bring high inflation under control in a timely manner, they reduced the likelihood of a more significant deterioration in the labour market later on. Such pre-emptive action would be expected to result in less damage to less well-off households over time.

While central banks were unlikely to take wealth and income distributional effects of their policies into account directly when choosing a policy path, it was important to acknowledge these effects regularly in public fora. Clear communication about the likely path of inflation given monetary policy objectives would also help to prevent inflation expectations of households with different perceived inflation from becoming too dispersed.

Participants noted that when assessing the varying impact of inflation on different types of households, it was important to think carefully about how to categorise them. In particular, focusing on household income alone could generate misleading results, as some lower income households were likely to have higher wealth (e.g. retirees who owned their home outright) or varying access to transfer payment benefits. Given this, presenters in the previous session had been right to identify low savings buffers as a key risk marker for lower income households when inflation was high.

Presenters had noted earlier that lower income households had recently benefited from the strong labour market and that this had helped to lessen the impact of high inflation. A participant suggested that an increase in hours worked for lower income households in response to higher inflation could also be viewed as a cost to those households. Others expressed some support for this idea; an increase in hours worked by households in order to maintain living standards might be unsustainable and detrimental to welfare in some cases. For other households, the increase in working hours would reflect a socially desirable improvement in labour market access.

The discussion turned to 'full' employment, which was expected to be an increasing focus of interest in other branches of government. It was suggested that fiscal policy was likely to play an increasing role in defining and achieving full employment targets going forward, both through cyclical and structural spending; one participant noted that it would be important for inflation management to discern between fiscal spending to increase employment and structural reforms that would make additional employment sustainable. Given the interaction between fiscal and monetary policy in managing the business cycle, government needed to clearly define the full employment objective and establish a suite of full employment indicators and governance frameworks to ensure that: i) fiscal and monetary policy would not work at cross-purposes over the business cycle; and ii) that central bank independence would be preserved.