

# Australian Council of Social Service

11 July 2023  
Hon Jim Chalmers, MP  
Treasurer  
Parliament House  
Canberra ACT 2600

Dear Treasurer,

## **Re: Full employment and policies to sustain it**

I am writing to set out for you our recommendations regarding implementing a full employment commitment and to seek to meet.

Australia is closer to full employment than we have been for 50 years. As you know, this has huge benefits for people on low and modest incomes and those living in poverty. It means people out of paid work can secure jobs, those with insufficient working hours can increase them, and people in a poor quality or insecure employment can find a better job. It means wages grow faster. In short, full employment is a powerful tool to reduce poverty and inequality.

ACOSS warmly welcomed the RBA Review's recommendation that monetary policy should target full employment as well as inflation, and that they be given equal weight. We urge you to put these principles front and centre in the forthcoming monetary policy agreement with the RBA. That requires, first and foremost, a clearly defined, readily understood employment target that is independent of the inflation target.

At the same time, we are deeply concerned that the prospects for achieving and sustaining full employment are ebbing away, as interest rates rise here and overseas. The risk of a major downturn is growing here and among our major trading partners. We cannot accept a return to the excessive levels of unemployment and underemployment that prevailed before the pandemic.

We propose that the Government take the following steps to entrench *genuine* full employment in budget and monetary policy settings, to guard against a recession in Australia, and to shield people from the worst impacts of unemployment. We would appreciate the opportunity to discuss these issues with you personally and with your advisors. **2**

## **1. Set a genuine, readily understood full employment target**

A genuine full employment target should sit alongside the inflation target in the next monetary policy agreement between the Government and RBA:

- We suggest that the Employment White Paper Task Force undertake a formal consultation as soon as possible, including with relevant peak bodies and experts, to develop a contemporary definition of full employment for consideration by government.
- Full employment should be defined independently of the inflation target, as the level of labour utilisation at which people can readily secure the jobs and paid hours they seek and people disadvantaged in the labour market have a fair crack at securing employment.
- The RBA should be required to justify its monetary policy decisions against both objectives in a transparent fashion.
- In turn, the Government should commit to make every effort to grow employment and ensure that job opportunities are widely shared, while preventing an unsustainable rise in consumer price inflation. - This includes tax reform and macroprudential management to stem speculative investment and overheating in asset markets.
- The RBA Review's recommendation for a hard inflation target of 2.5% (rather than 2-3%) should not be accepted as this increases the risk that monetary policy will be tightened too far in economic booms, triggering recessions.

A monetary policy agreement that gives equal weight to employment and inflation would be a significant shift from the last three decades of monetary policy that privileged price stability over job opportunities for all, triggered a severe recession in the 1990s and failed to restore full employment in subsequent boom years. The target pursued over that period – the so called Non Accelerating Inflation Rate of Unemployment (NAIRU) - was not a full employment objective, it was an input to the inflation target. Unemployment was not allowed to fall *below* a level at which it was deemed an inflationary spiral would ensue. In this way, full employment was framed as a second order goal behind price stability, a luxury we might afford once we had inflation under control.

To be clear, the problem is not the people managing fiscal and monetary policy, it is an outdated policy framework in which the harm caused by mass unemployment is set aside and downplayed. Despite the lack of evidence of a price-wage spiral, the RBA recently signalled the need to *increase* unemployment to an assumed NAIRU of 4.5%. This is not the path to full employment but the abandonment of it.

As the Economic Inclusion Advisory Committee's first report points out, the recovery after the COVID recession showed that unemployment can be reduced well below previous estimates of the NAIRU without a price-wage spiral. New evidence calls for new thinking. Australia will not achieve genuine full employment unless we have an agreed understanding of what it means, and this vital national goal is disentangled from inflation targeting. The attachment to this letter outlines

possible definitions of full employment and how that might be measured. **3**

## **2. Guard against an economic downturn and shield people from the impact of unemployment**

As you know well from your own experience, governments must be prepared for the worst. Australia avoided recessions and their devastating social and economic impacts in the GFC and the pandemic because governments were well advised and committed to doing so. They were also well prepared, having learnt from previous economic downturns.

Without prejudging our economic circumstances or 'talking the economy down', we propose that the Government seek advice on measures to strengthen household incomes and employment in the event of a downturn, and shield those worst affected. This should include consideration of policies and programs to:

- lift income support for people out of paid work If the Economic Inclusion Advisory Committee's recommendation to lift the lowest income support payments to at least 90% of the pension rate is implemented, Australia's 'automatic stabilisers' would be far more effective;
- invest in infrastructure that generates jobs while meeting other vital goals such as expanding social housing, climate change mitigation and improving community resilience to natural disasters;
- grow quality jobs in the care economy;
- give people who are unemployed long-term access to paid work experience and training that boost their future employment prospects.

I would appreciate your early response to our suggested measures of full employment, and the opportunity to discuss this, together with policies to shield Australia from an economic downturn, with you, and advisors and Treasury officials.  
Yours sincerely,

Dr Cassandra Goldie

A handwritten signature in black ink, appearing to read 'C Goldie'.

CEO ACOSS