

Fair policies to reduce inflation

28 September 2026

Objective

To reduce inflation fairly while supporting those with the least, meaning:

- the least possible increase in unemployment; and
- giving priority to protecting living standards for people on low incomes.

Causes of the current inflation

Inflation is still too high, but much closer to the RBA target range.

Core inflation as measured via the trimmed mean currently sits at 3.6%. This is much lower than 2022, when core inflation was as high as 6.8%.

Inflation is currently rising around the world due to the impact of higher oil prices, with countries like the UK (3.1%) and the US (3.4%) facing similar headline inflation rates to Australia (3.5%).

The main causes of this inflation lie on the supply side, which interest rates will not impact, including:

- Iran war, fuel prices and flow on effects (especially transport, food, building);
- Climate change, energy prices, and related risks to food supply; and
- Housing supply shortages.

The RBAs main concern is that if inflation remains above its 2-3% target for too long, people will expect it stay higher. So far, this has not happened. On the other hand, if interest rates keep rising, there is a real risk of serious economic downturn and large-scale job losses.

On the demand side, there is little evidence that the economy is overheating:

- *Inflation is not too high because unemployment is too low.* Real wages are below their pre-pandemic level and nominal wage growth is not accelerating.
- This did not happen even when unemployment reached a low point of 3.5% after the pandemic (2022).
- The unemployment rate now stands at 4.6% and an extra 100,000 people now rely on Jobseeker Payment for more than a year.
- *Inflation is not being fuelled by public spending.* Growth in demand for goods and services is now driven mainly by private investment (e.g. data centres) and household consumption (e.g. cars) rather than public expenditure. Private demand has grown at twice the rate of public demand through the year to June 2026.

In an economy without a high level of excess demand, where inflation is largely driven by global events, rising interest rates will simply damage community living standards and eliminate the post pandemic gains in employment. The people most impacted will be those unable to access paid work as employers reduce hiring, forced to rely on inadequate income support payments.

Economic management is ultimately about promoting community living standards. Further interest rate rises will damage community living standards especially for those on the lowest incomes. We must choose a fairer, more compassionate path.

Fair solutions

Policy principles

To prevent higher inflation expectations becoming embedded, the Government should look at ways it can lower headline inflation fairly and without needless damage to living standards.

This requires government action to tackle supply side problems directly and reduce overall demand modestly.

It demands both short-term action (within a year) to reduce inflation and medium-term action (two to three years) to contain it and reduce expectations.

All government policy actions should be underpinned by a 'do no harm' principle. They should not add to inflation by boosting overall consumer demand and neither should they make life harder for those struggling the most. Any cost-of-living relief should be targeted to people with the least resources. Further tax cuts should not occur. Well-designed tax increases should be considered (whether through 'bracket creep' or increases in tax for those who can afford to pay).

As acknowledged by the RBA in their most recent Statement on Monetary Policy, administered price inflation (prices set by Government) is running at 4.2%. The Government can should act immediately to lower out of pocket fees for government funded services, which would lower the headline inflation rate and help to alleviate concerns about higher inflation expectations.

Policy proposals

Short term

To put downward pressure on **energy prices**, the Government should:

- Continue efforts to secure additional fuel supply, including continuing to support purchases from refineries across the Pacific, establishing a domestic gas reserve and implementing a 25% tax on gas exports.
- Shift the Small-Scale Renewable Energy Target and Large-Scale Renewable Energy Target subsidies (for rooftop solar) off bills and directly fund from general revenue.
- Avoid action that boosts demand (including cuts to fuel excise), given that shortages may arise.

To continue to put downward pressure on **housing costs**, the Government should:

- stay the course on investor tax reforms and incentivise State and Territory Governments to limit excessive rent increases

To reduce **overall demand** modestly, the Government should:

- delay or cancel broad-based tax cuts
- consider well-designed tax increases for those who can afford to pay
- focus targeted financial help to people who need it most, using the social security system

Medium term

- To reduce inflation in administered prices, governments should seek to reduce out of pocket costs for government funded services, including medical specialist and dental out-of-pocket costs by:
 - Replacing the Extended Medicare Safety Net with more effective and equitable initiatives to reduce out-of-pocket specialist costs and contain price inflation, including public hospital outpatient services, bulk billing incentives and increases in Medicare Benefits.
 - Expanding access to dental benefits schemes and investment in public dental services.
- To curb demand for diesel from the mining industry, cut Fuel Tax Credits.
- To reduce housing cost inflation particularly for lower income households, prioritise delivery of already-committed social housing supply and increase investment in additional social housing supply, including through greater use of cost-effective upfront capital investment
- To contain energy prices, reform the electricity network Rate of Return to reduce what providers can charge for network costs.