Australian Council of Social Service

Fair policies to reduce inflation

Update: 02 November 2026

Objective

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

- the smallest 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.

Headline inflation (Consumer Price Index) is 4.3% through the year to September 2026. *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%.

Headline inflation (Consumer Price Index) is currently rising around the world due to the impact of higher oil prices, with countries like the UK (3.5%) and the US (3.7%) and New Zealand (3.7%) all having inflation above target.

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);
- A surge in investment in AI-related infrastructure, including datacentre construction.
- 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.

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

Inflation is not caused by government 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**). Private demand grew at twice the rate of public demand through the year to June 2026** (see Fig. 1 below).
- Growth in jobs in publicly funded health and care services in 2024 and 2025

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may have prevented a recession at that time, and this has now slowed due to cuts to the NDIS. In 2025, the RBA modelled an $8 billion annual cut to public spending on health care services and found that employment would fall by 90,000 jobs.[1]

- **Australia is one of the lowest spending countries in the OECD**. Australia was the eighth-lowest spending nation (in terms of public expenditure by all levels of government) among 33 nations surveyed by the OECD.
- From an inflation standpoint, the way governments spend is as important as overall spending levels. Governments can reduce inflation by targeting spending to reduce out of pocket costs for essential services (as we propose below).
- Overall consumer demand can be reduced more fairly, based on ability to pay, through **progressive tax increases**.

Inflation is not too high because unemployment is too low

- Real wages are below their pre-pandemic level and wage growth is not driving higher inflation.
- Even when unemployment reached a low point of 3.5% after the pandemic in 2022, there was no 'wage-price spiral'.
- ***Unemployment is growing**:* The unemployment rate now stands at 4.7% and an extra 100,000 people rely on JobSeeker payments compared with three years ago. Over 600,000 people have now relied on those payments for over a year (see Fig. 4).

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, governments should pursue fairer ways to lower headline inflation avoiding needless harm to living standards.

As inflation is now much closer to the RBA target band (2-3%), there is no need for monetary or fiscal policy to *dramatically* reduce demand in the economy (see Fig. 2). Under current conditions, that would risk a recession and much higher unemployment in a year's time. Instead, governments should take *targeted* action to overcome supply constraints (including fuel supply) and curb growth in the prices they directly influence.

[1] RBA (2025), *What can MARTIN tell us about the interaction between private and public demand?* Economic Analysis Department, Reserve Bank

Prices directly impacted by Government policies have a major impact on inflation, contributing around a quarter of the CPI, and these 'administered prices' are rising relatively strongly:

- Rents contribute 7% to the CPI;
- Utilities (including household energy and water) contribute 6%;
- Fees and charges for community services (health education and childcare) contribute 13% (ABS CPI, quarterly).

We propose 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 policy actions should follow a 'do no harm' principle. They should not add to inflation by boosting overall consumer demand and nor 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, including those scheduled for July 2027, should be cancelled or deferred. Well-designed tax increases should be considered (whether through 'bracket creep' or increases in tax for those who can afford to pay).

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-targeted tax increases for those who can afford to pay
- Target financial help to people who need it most using the social security system.

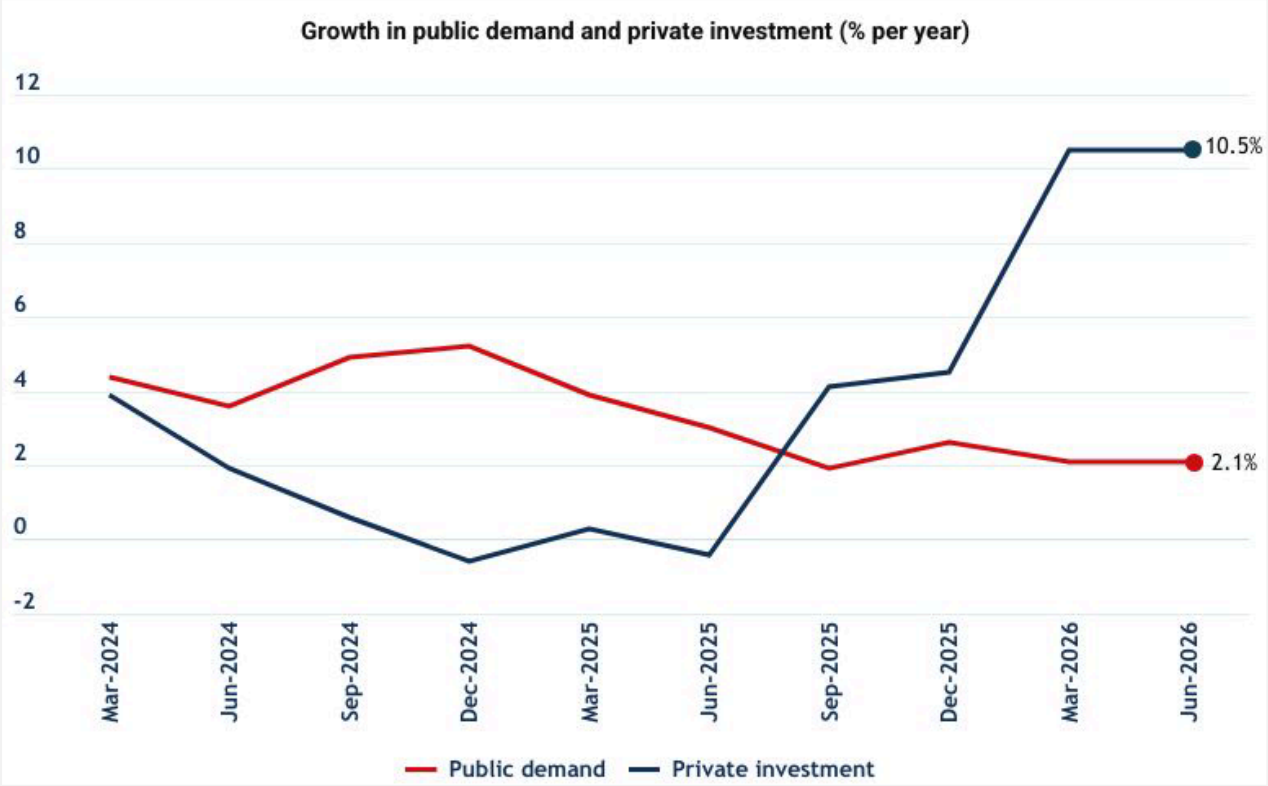
Medium term

- To reduce inflation in administered prices, governments should seek to **reduce out of pocket costs** for government funded community services 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.

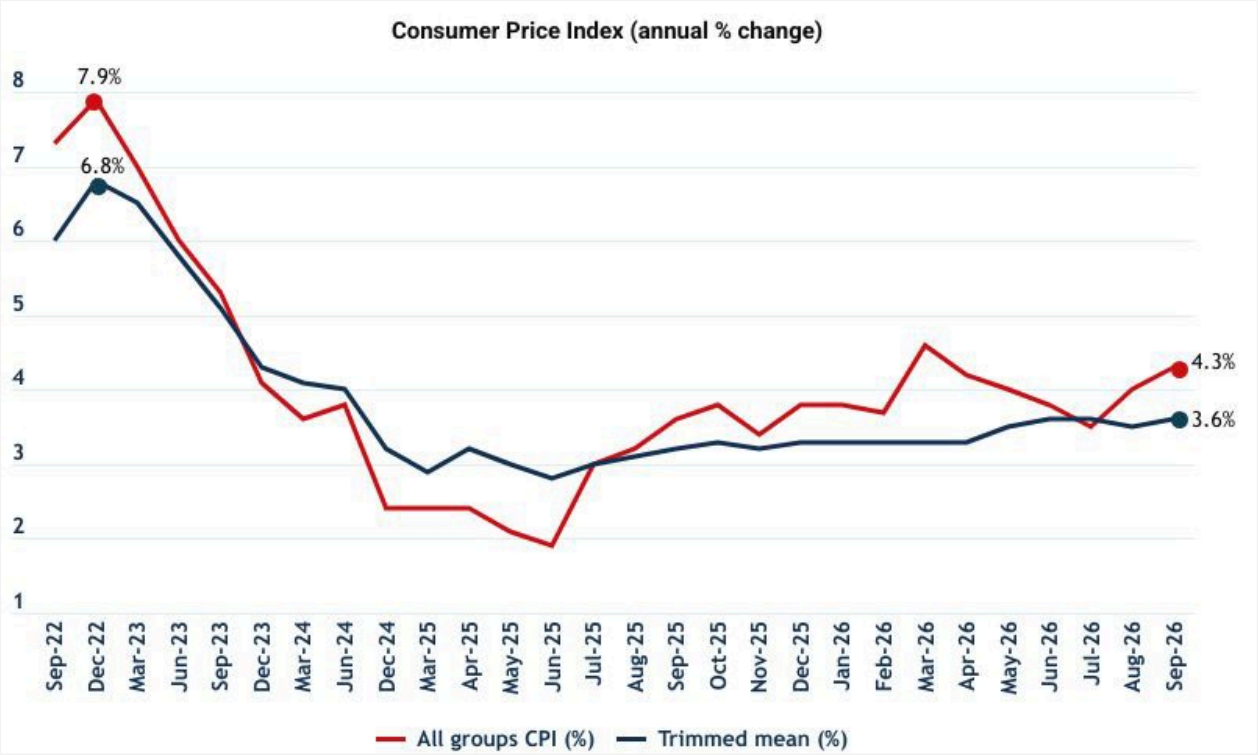
Data

Figure 1: Public demand is falling back as private investment grows



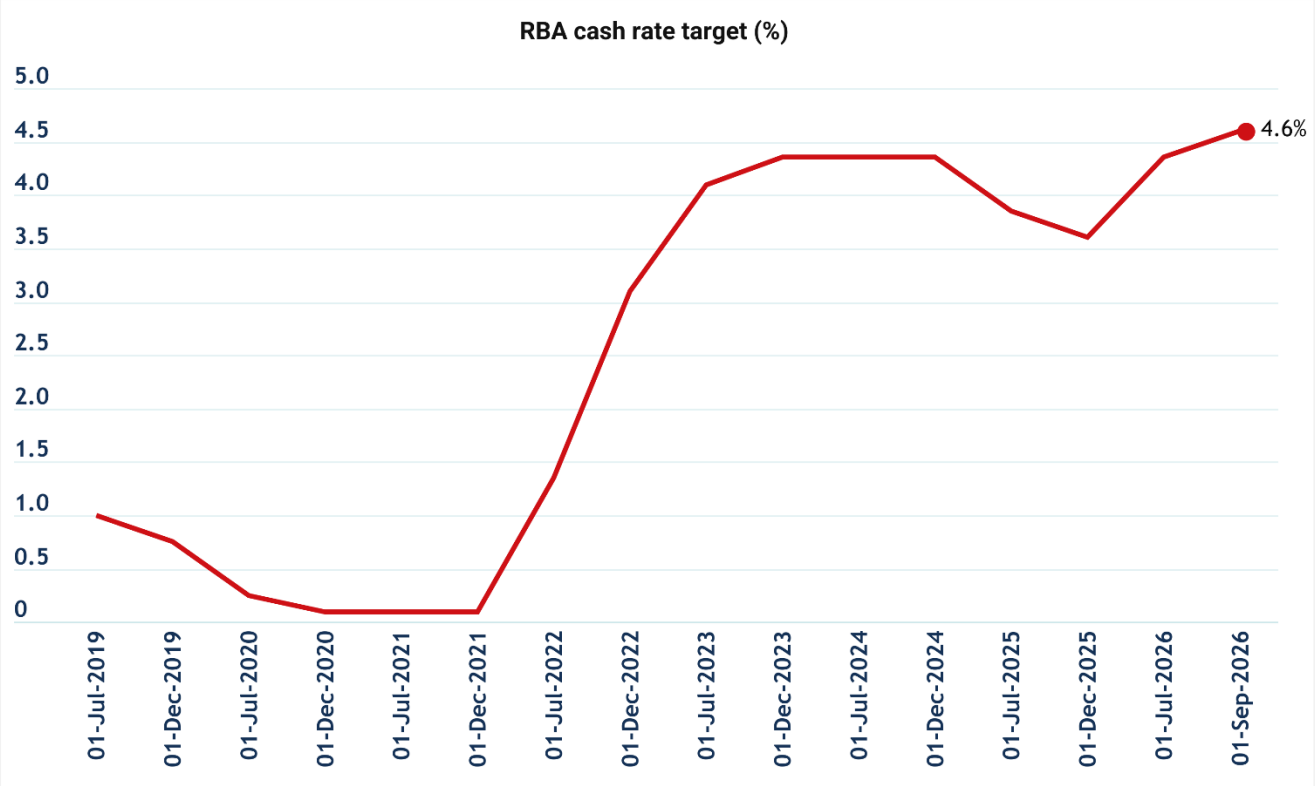
Source: RBA, *Statistics.*

Figure 2: Inflation is too high, but well below its peak



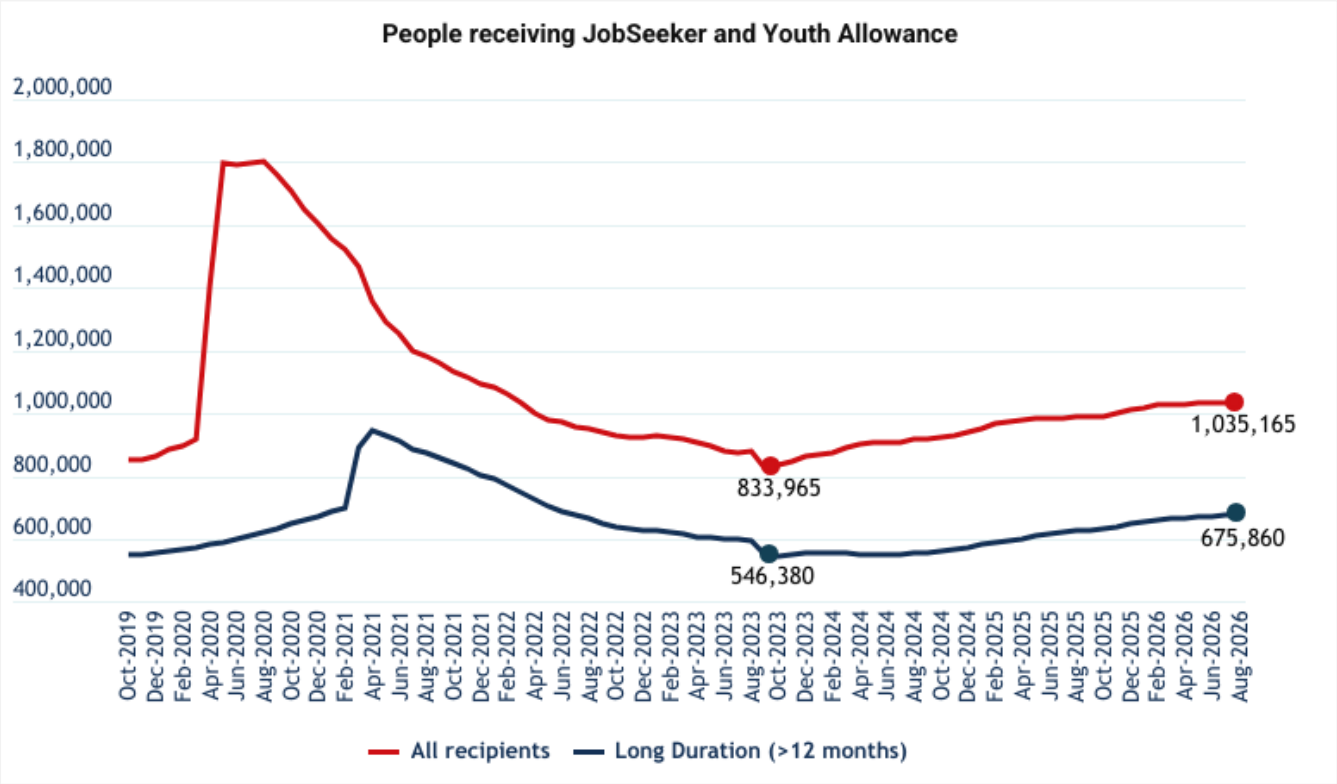
Source: ABS, *Consumer Price Index Australia*.

Figure 3: RBA interest rate increases are the steepest since the 1980s (from a low base)



Source: RBA

Figure 4: 100,000 more people rely on JobSeeker payments compared to three years ago



Source: *DSS unemployment payments data.*