Parliament of Victoria

Research Note

Parliamentary Library and Information Service

ISSN: 2204-4779 (Print) 2204-4787 (Online)

No. 6 | July, 2022

Abstract

Considerable attention is now focused on the range of price spikes has accompanied the recovery of the world economy in the aftermath of the COVID-19 pandemic. Australia's overall quarterly rate of 5.09% and 3.75% for food and energy prices were high. Governments and institutions have a limited range of policy options. State governments can contribute with the first two options. Indeed, some already have proposed modest 'cost-of-living' alleviation measures, mostly targeting household energy-bill assistance. This paper examines some of the reasons why governments approach inflation the way they do and surveys some recent contributions to policy debate.

Inflation and the cost of living: Policy debates and practices

Ben Reid

The return of inflation

Apart from rising unemployment, few economic issues concern voters and their representatives more than inflation (Doherty and Gomez, 2022). Considerable attention is now focused on the range of price spikes has accompanied the recovery of the world economy in the aftermath of the COVID-19 pandemic. Annual inflation was almost 4% across the Organisation for Economic Cooperation and Development (OECD) member states in 2021 (OECD, 2022). However, the year-on-year quarterly inflation rate jumped to 7.9% for March 2022. Australia's overall quarterly rate of 5.09% and 3.75% for food and energy prices were high but below the OECD average (Figure 1.1).

Although inflation and monetary policy (the supply of money to the economy) are mainly the domain of federal politics and institutions (such as the independent Reserve Bank of Australia [RBA]), they also impact on state-level public policy debates. Governments and institutions typically have a limited range of policy options: targeted cost of living relief measures; reductions in government spending; or adjustments to official interest rates. State governments can contribute with the first two options. Indeed, some already have proposed modest 'cost-of-living' alleviation measures, mostly targeting household energy-bill assistance expenditures (Cormack, 2022; DFFH, 2022; VCOSS, 2022). While debates continue over their desirability and fiscal implications, such initiatives were historically quite common.

Apart from the appropriateness of these fiscal initiatives, a three-fold focus of debate has emerged. First, the 'spectre' of the 'great inflation' or 'stagflation' (a combination of stagnation/slow growth and inflation) era of the 1960 and 1970s has become a major theme. Second and accordingly, considerable anxiety about wages and salary costs - including warnings of a purported 'wages-price' spiral - have featured in recent commentary (Mizen, 2022). Third, increases to official interest rates have occurred, with the RBA implementing increases to its base cash rate since April (from 0.1 to 1.35%).

Yet such responses are possibly overblown. There are other historical experiences of inflation than the 1970s that are more relevant when considering current events. This paper examines some of the reasons why governments approach inflation the way they do and surveys some recent contributions to policy debate.

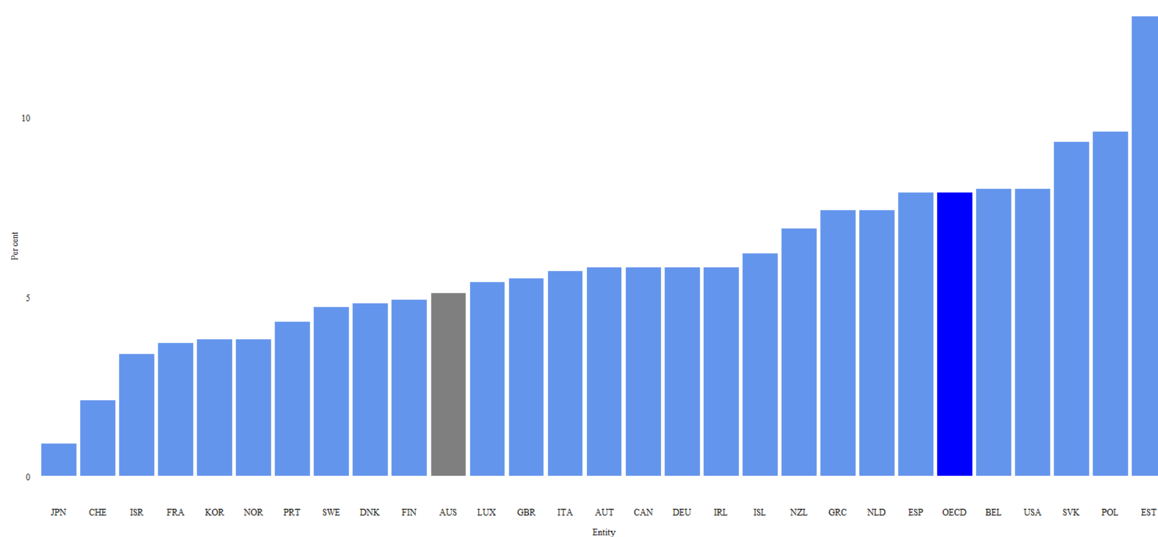

Figure 1.1: First Quarter 2022: Australia and OECD High-income countries compares (OECD, 2022) | *Control-click to view interactive visualisation.*

The spectre of the 'great inflation'

Bouts of rising prices have recurred throughout history, and inflation was a central concern in the emergence of modern economic theory and associated public policy debates. The current debate is the product of important historical changes in monetary policy. The following section draws upon Blanchard and Jeffreys (2013), Bowles et al. (2018) and Greenspan (2007) as its main sources and summarises some of this thought.

The tolerance of price instability within industrialising and market-based economies was greater until the early to mid-twentieth century.[1] However, the inter-war experiences of hyperinflation, deflation and economic depression challenged these more laisse fare and 'sound finance' assumptions. John Maynard Keynes' insights were partially incorporated into economic thinking, formalising accommodative monetary policy and government fiscal stimulus roles. These helped reduce both the duration of economic downturns and unemployment levels.

By the 1960s, the 'Phillips curve' emerged and predominated within macroeconomic management.[2] Central banks adopted an explicit goal of full employment and could implement various measures to stimulate economic growth or prevent an economy from 'overheating.' One of the key tools - that went on to become a central focus - was the official interest rate applied to inter-bank payments at the end of each business day. The official or cash rate effectively constituted a 'floor price' for the cost of borrowing. Falling investment, output, and increasing unemployment suggested a central bank lowers interest rates and overheating interest rates.

Eventually, the apparent 'trade-off' between inflation and employment growth broke down. Rising prices persisted during the return of recessionary conditions in the early 1970s: the so-called 'stagflation' of the 'great inflation' era (Figure 2.1). Prices continued to increase despite declining economic growth in the early 1970s in Australia (and other economies) (Figure 2.2). Inflation continued to be high, despite a rise in the unemployment rate from 1.6% in 1962 to over 5% in 1975 (ABS, 2007) (Figure 2.2, Table 2.1).

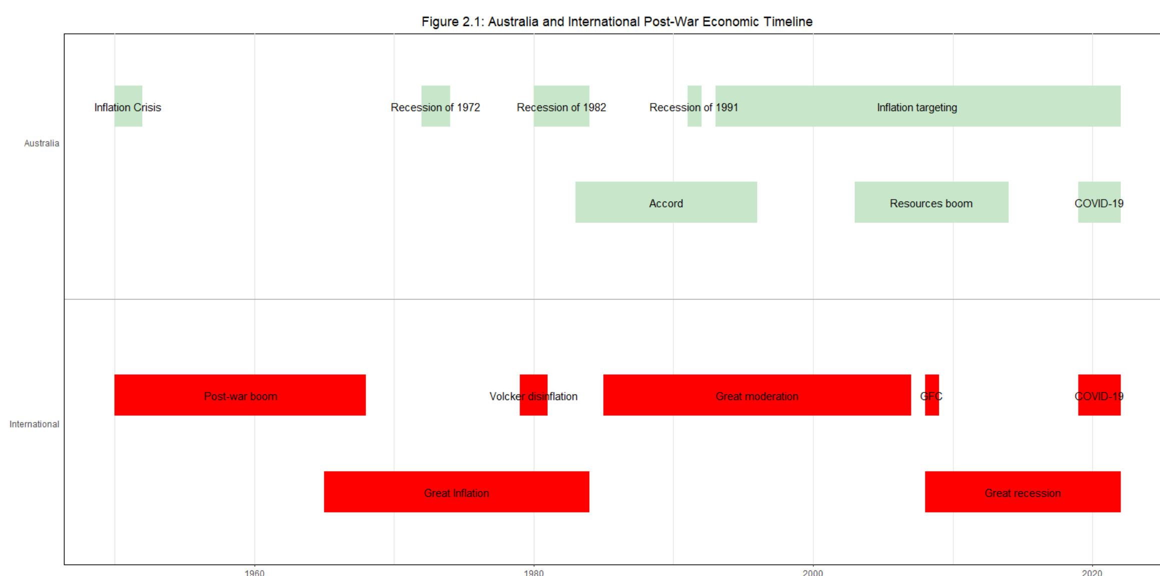

Figure 2.1: Australia and International Post-War Economic Timeline | *Control click to view interactive visualisation.*

1: See St. Lois Federal Reserve (2022) for a glossary of economic terms.

2: Named after the economist A. William Phillips.

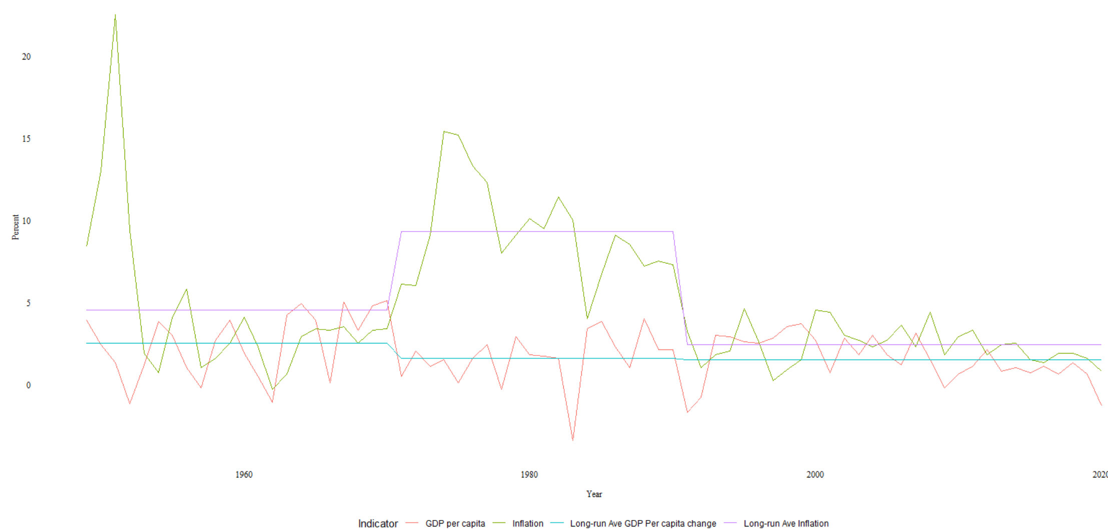

Figure 2.2: Annual Percentage Change in GDP Per Capita and CPI in Australia, 1949-2020 (GGDC, 2020; RBA, 1996; World Bank; 2022b). *Click to view interactive visualisation.*

Year	Inflation	GDP per capita	Long-run Ave Inflation	Long-run Ave GDP Per capita change	Unemployment
1949	8.4	3.9	4.5	2.5	
1950	13	2.4	4.5	2.5	
1951	22.5	1.3	4.5	2.5	
1952	9.4	-1.2	4.5	2.5	
1953	1.9	1.2	4.5	2.5	
1954	0.7	3.8	4.5	2.5	
1955	4.1	3	4.5	2.5	
1956	5.8	1	4.5	2.5	
1957	1	-0.2	4.5	2.5	
1958	1.6	2.7	4.5	2.5	
1959	2.5	3.9	4.5	2.5	
1960	4.1	1.9	4.5	2.5	
1961	2.3	0.5	4.5	2.5	
1962	-0.3	-1.1	4.5	2.5	
1963	0.6	4.2	4.5	2.5	
1964	2.9	4.9	4.5	2.5	
1965	3.4	3.9	4.5	2.5	
1966	3.3	0.1	4.5	2.5	1.7
1967	3.5	5	4.5	2.5	1.9
1968	2.5	3.3	4.5	2.5	1.8

Table 2.1: Inflation and Per Capita Income Annual Percentage Change in Australia, 1949-2020 (GGDC, 2020; RBA, 1996; World Bank; 2022b). *Click to view interactive Table.*

While considerable debate surrounded why stagflation occurred, Milton Freidman provided the most influential account. He posited that inflation was always 'monetary' in character: changes to the quantity of money always preceded the onset of inflation (Friedman, 1970). He suggested a 'non-accelerating inflation rate of unemployment' policy. Consequently, most market economies adopted policies targeting inflation and accepted higher unemployment rates.

In the United States, Paul Volcker became chair of the Federal Reserve Bank in 1979 and tightened monetary policy. The Federal Funds Rate climbed to over 19%, triggering major recessions in 1981. Inflation remained high in Australia, despite its economy entering a recession in 1983 (Figure 2.1). The RBA eventually lifted the cash rate to over 17% (Bell, 2004, pp. 58–79; Kelly, 2008, p. 489), causing a deep recession in 1990-91. Only then did inflation fall consistently below 5% (Figure 2.2).[3]

3: Historical debates surround why such dramatic action was taken, with some arguing the RBA wanted to be seen as more independent of the government and emulating New Zealand's stronger approach (Bell, 2004, pp. 59–60).

Figure 2.3: Annual unemployment rate 1969-2020 (ABS, 2022a)

Subsequently, the so-called 'great moderation' followed, where inflation remained consistently low (Figure 2.1). Macroeconomic policy focused on maintaining an annual inflation target of 2-3% in 1993 (Stevens, 1999). A now independent RBA board could adjust the cash lending rate based on assessments of international and domestic economic conditions. Along with policies aimed at deregulation and promoting market-based credit allocation, it remained the centrepiece of 'conventional' approaches. In Australia, the average annual inflation rate fell from 9.3% (between 1970 and 1990) to 2.4% between 1991 and 2020 (Figure 2.2, Table 2.1).

However, the global financial crisis (GFC) and the COVID-19 shock facilitated limited modifications to policy. Many central banks have pursued 'unconventional' monetary policy approaches for over ten years. Attempts to stimulate economies led to negative official interest rates and even 'quantitative easing.' The latter is a form of 'printing money' whereby central banks used reserves or created fiat money to buy government and corporate bonds from investors. The goal is to increase 'liquidity' (the volume of funds available for consumption and investment in the real economy). Both the Federal Reserve and the European Central Bank now have a target of an average inflation rate of 2% (it's not clear over what period) (European Parliament, 2021).

The economic climate was a little different in Australia compared to the major economies of Europe and North America (and Japan) (Figure 2.1). Like the Federal Reserve, the RBA lifted rates before the GFC. Unlike the former, the RBA also increased rates between 2009 and 2011 in response to the resources boom before progressively lowering them to 0.1% in late 2020 (Reserve Bank of Australia, 2022).

In any event, the policy history is important as it is key to understanding current debates. The fear of returning to the 'great inflation' period of the 1970s 'haunts' discussions, and policymakers are also reluctant to abandon inflation targeting.

Beyond money: Before the 'great inflation'

Yet, questions are now recurring: is inflation primarily a monetary phenomenon, and are policy measures that assume that still valid? Are all bouts of price instability likely to repeat the stagflation period of the 1970s?

The emerging consensus is no. Economists have long argued that there are several types and causes of price instability and often took a more benign view of inflation before the 1970s and 1980s. These various kinds – 'cyclical', 'materials cost-push', 'structural', hyperinflation and stagflation – all require careful consideration and policy responses (Bowles et al., 2018, pp. 249--257).

Historically, economists often cautioned against implementing an overly strict monetary policy – a tool designed for reducing aggregate demand – when cost-induced inflation was a major factor:

Pressure from the cost side may arise long before effective demand has risen to the full employment level and may persist long after it has fallen below that level. Any attempt to overcome cost inflation by measures to curb demand for goods and services could generate considerable unemployment long before it curbed appetites for higher prices and wages (United Nations, 1957, p. 6).

In other words, external elements and supply shocks can impact an economy and prices, and the standard tools of monetary policy tightening could have a negligible impact. Instead, it would worsen matters by dampening employment growth and investment, doing little to control prices.

At the time, governments and central banks also had a wider remit and set of policy tools, and full employment was both more of a real and stated policy objective. The level of growth in the real economy, employment, and a range of other indicators factored into flexible decision-making.

As a case in point, before the 1970s, Australia's most prominent high-inflation period occurred in the post-war era (Figure 2.1 and Figure 2.2). The onset of the Korean war resulted in unprecedented increases in prices internationally and in Australia. A large and sudden rise in prices was associated with a sudden change in export prices, occurring on top of the economic recovery after the 1939-45 war. The latter had resulted in considerable speculative capital inflows (Beggs, 2015, p. 56). Waterman (1972) argues that the demobilisation of military personnel after 1945 and the beginning of the post-war immigration boom led to rising domestic consumption. In addition, there were still some shortages of manufactured goods and elevated levels of industrial disputes (leading to higher wage growth).

However, a sudden 'terms of trade shock' (a sudden increase in export prices on the world market) eventually triggered a spike in the consumer price index (CPI) between 1951 and 1952. The onset of the war on the Korean peninsula resulted in a sudden appreciation in wool prices on the world market. The wool export price index rose from 592 to 1,437 between January 1950 and March 1952. Apart from the windfall income gains made by graziers, the main consequences were a significant boost to liquidity and business confidence (Waterman, 1972, pp. 78–79). High capital inflows also reduced borrowing costs (Beggs, 2015, p. 57). Consequently, year-on-year inflation peaked at 23.9% in the December 1951 quarter.

Eventually, international wool prices collapsed, with the price index returning below its January 1950 level. However, the surge in domestic prices continued, only falling below 20% in the June 1952 quarter (Glassock, 2018). The combination of post-war economic conditions and an external trade shock combined to bring about a significant inflationary bout. While many blamed wage indexation for the overall price rise, surging demand increased wages and consumer prices.

The Menzies Government implemented ‘two credit squeezes and constraints on the amount of credit issued by banks... which were operating under a more centralised system at that time’(Hocking cited in Stevens, 1992). It also introduced a ‘horror budget’ at the federal level with a 25% cut in state loan credits and a 5% reduction in employment across the public service (Waterman, 1972, p. 86). The most controversial measure was the increase in wool import duties and ongoing attempts at further import restrictions across the 1950s.

However, their impacts were contradictory, being offset by a ‘net increase’ in government expenditure, mostly focused on defence and capital works (Waterman, 1972, p. 88). Overall, the economic impacts were modest with a minor rise in unemployment, while labour utilisation remained below trend until 1954. Gross National Product (GNP) contracted by 0.71%. Both consumption and inventories quickly recovered, and inflation returned to lower and more normal levels. While the government responded with monetary and fiscal tightening, the crisis would have abated in any event.

Inflationary problems occurred in the post-war period before the 1970s. Economists took a more cautious view of implementing tight monetary policies in the 1950s and 1960s. In Australia, a cost push linked to an external trade shock led to annual inflation reaching over 20% in 1950-51. The Menzies Government took deflationary measures in 1951-2, although overall government expenditure did not decline. It is debatable if even the resulting modest rise in unemployment at the time was necessary. The economy rapidly recovered from the price shock, and inflation remained low. Fiscal and monetary policy measures played a minor and contradictory role.

Beyond inflation 'paranoia': what policies?

More recently, reconsiderations of these experiences in the 1950s and 1960s, along with assessments of inflation targeting over the last two decades, have led to many economists suggesting a nuanced view of price instability.

On the one hand, some voices have called for a tightening of monetary policy, and both the Federal Reserve and the RBA have now obliged (Federal Reserve, 2022; Kennedy, 2022; Reserve Bank of Australia, 2022; The Economist, 2022). So-called 'inflation hawks' appeared to have prevailed for now. The RBA is projecting a series of increases in the cash rate. However, rates have been very accommodative since 2020, and even with these increases, they will remain historically low by historical standards.

On the other hand, others caution against 'inflation paranoia' (Agarwal and Kimball, 2022a; Chowdhury and K Sundaram, 2022b, 2022a; Mason, 2022). The great inflation era of the 1970s resulted from multiple concurrent factors. Excessive fiscal expenditures were occurring on top of accelerating Vietnam war expenditures in the mid-1960s. Added to this was the impact of oil price surges in the early 1970s, resulting in an unprecedented 'cost-push.' Others point to political pressure blocking central bank policy (Federal Reserve, no date; Weise, 2012). 'New Keynesian' and more critical economists also dispute that the assumptions of the Phillips curve were contributing factors or point to underlying structural issues of falling profitability (Coibion and Gorodnichenko, 2011; Shaikh, 2016, pp. 677–723).

Moreover, the current inflation problems flow from other and unique supply and cost-based pressures. Just as the post-war period of economic recovery created inflationary pressures, the COVID-19 crisis is generating a series of shocks. These include a range of issues (Agarwal and Kimball, 2022a; Mason, 2022):

- a shift in consumer preferences for goods rather than services
- the overhang of production cutbacks during COVID 19
- shortages in key components such as semiconductors
- Ongoing disruptions in logistics and supply chains
- labour shortages due to lockdowns and illness
- the Russia-Ukraine war's impacts on wheat and energy markets

As noted in part one, some commentators have raised the spectre of wages 'break out', although there is little consensus that such a threat exists. Indeed, there is little evidence of a 'wage spiral', apart from an incidental increase in costs in the United States (a one-time expansion in minimum pay) and a contraction in labour market participation (Chowdhury and K Sundaram, 2022a).

In Australia, the growth in labour costs remains stubbornly low, with employees covered by enterprise agreements even falling behind in individual arrangements (ABS, 2022c). Most recently, the fair work commission did not hesitate to increase the minimum wage by over 5%. As in the 1950s, the international emphasis is now on taking a more measured approach.

Of course, it is debatable if wage costs were ever the main source of accelerating inflation. Businesses do what they do: profit maximisation. While firms face genuine cost pressures, others respond by increasing margins on the prices they charge consumers. The rational thing for all producers to do when faced with competitors rising prices is to lift their own margins. Depending on how 'elastic' demand is, consumers will respond by delaying purchases or switching to substitutes, allowing for a correction in prices. Consumer preferences can be 'sticky' and some substitutes will be difficult in some cases. Proposals for price controls – long banished from most public policy discussions – have even reappeared in international debates (Weber, 2022).

Overall, many economists now argue that 'while households have a strong aversion to inflation, in standard neoclassical models, the welfare costs are small'(Agarwal and Kimball, 2022b). Provided earnings keep pace with prices (through wage rates and government expenditures), the net impacts of inflation are negligible. The biggest costs associated with inflation tend to be so-called 'shoe-leather' and 'menu costs' (more frequent trips to banks and price changes), 'unpredictability,' and 'confusion and sentiment.' These may eventually influence business and consumer confidence but are outweighed by the benefits of increased output when an economic recovery accompanies inflation.

More generally, there are increasing doubts about inflation targeting and the efficacy of interest rate policy as a singular or even predominant policy response. The widely adopted 2% inflation target was, according to Don Brash, then governor of the Reserve Bank of New Zealand, an arbitrary figure 'plucked out of the air' (Brash cited in Irwin, 2014). Over time, it has entrenched an 'anti-inflationary bias' that results in central banks (and governments) over-reacting. The result is that economic stagnation can needlessly drag on (Agarwal and Kimball, 2022a). In other words, accepting inflation above the 2% target may just be part of economic recovery. As noted above, the RBA and European Central Bank (ECB) have already moved to an average 2% inflation target, and other more 'technical' aspects of central bank policy have also changed in the wake of the GFC and COVID-19 (Baker and Rafter, 2022).

As the World Bank (2022a) recently warned, the combination of various cost-push measures and supply blockages has already meant that global economic growth was lower than expected in 2022. They see a considerable risk of stagflation/recession: a tighter monetary policy would worsen matters without resolving underlying supply issues.

Agarwal and Kimball (2022a) say little about how households can manage potential price shocks, apart from suggesting firms be provided with the flexibility to provide salary in 'bonuses' in times of high costs. It's unclear how realistic such measures may be when firms complain of rising prices.

Other voices suggest additional policy changes with a greater fiscal component. There is a need to 'create government fiscal space by financing unanticipated urgent needs and long-term sustainable development' (Chowdhury and K Sundaram, 2022b). Others point to a lack of public investment underpinning big increases in housing and transport costs (Mason, 2022).

Accordingly, immediate government expenditures can reduce household costs through temporary subsidies, especially with staples and energy. In the medium to long run, subsidised public provisioning of healthcare, transport, housing, education, and childcare can offset rising living costs.

In terms of monetary policy, Sundaram and Chowdhury (2022b) argue:

> **Monetary authorities need to apply a combination of tools, such as reserve requirements for commercial bank deposits, more credit, including differential interest rate facilities, and more inclusive financing. For example, central banks should restrict credit growth in 'overheated' sectors, while expanding affordable credit for those facing supply bottlenecks. Central banks also need to curb credit growth likely to be used for speculation... Regulatory measures are also needed to check commodity futures and other speculation. These increase food and fuel price rises and other problems... Relying exclusively on the interest rate hammer is an article of monetarist faith, not macroeconomic wisdom.**

The latter elements – curtailing price speculation – are not just elements of international markets in sectors such as food. They relate directly to domestic consumption (as the current energy market gyrations suggest may be a factor) (Grattan, 2022).

Whatever the merits of these arguments, they suggest a cautious approach when reacting to the current inflationary pressures. While some hikes in cash rates may be inevitable, more attention should focus on dealing with the underlying bottlenecks and under-investment of crucial spheres of the economy, combined with alleviating household budget stress.

What role for state governments?

What does this mean for state governments? There are three main issues to consider.

First, legislators should know what inflation is and how it impacts types of households differently. The commonly used measure - CPI - has long been criticised for underestimating actual price rises (Dosen, Aroozoo and Graham, 2018). The Australian Bureau of Statistics (ABS) (2022b) notes that it is not a comprehensive cost-of-living index. Nevertheless, it remains the measure used to determine the 'cost of money': the approximate interest rate needed for a sum to increase in value.

The ABS's (2022b) Living Cost Indexes provide additional information but do not capture the variations across various places or groups. These suggest that annual changes in living costs varied from 3.8 % for 'employee' households through to 4.9 % for age pensioners. Therefore, the aged seem to have experienced greater stress than working households. Other 'government transfer income recipient households' experienced a 4.4% increase. Transport costs were the largest contributor factor for each, ranging from 13.4% for self-funded retirees to 17.1% for other government transfer recipient households. Housing costs (including utilities) increased between 4.6% for pensioners and 2.4% for employee households.

Second and accordingly, the distribution of these extra costs towards more vulnerable households (pensions and government transfer recipients) suggests subsidies and expenditures targeting transport costs are justified. Hence the federal government's relaxation of fuel excises and state-based initiatives which have been more limited and focused on household energy costs (DFFH,2022). While the ABS indexes suggest the impact of utility price rises is more limited, savings in these areas can compensate for extra expenses in transport. Such approaches are broadly in line with recommendations discussed in section four.

Third, what is less certain is the extent to which these shorter-term subsidies link to medium and longer-term strategies. The spikes in transport costs are timely reminders of the economy's vulnerability as a whole and households to energy cost shocks. In keeping with Sundaram and Chowdhury (2022b)'s recommendations, while fuel subsidies are justified, more attention could focus on developing alternative transport options and services. Likewise, Victoria's energy cost grant is contingent on households obtaining quotes on less costly energy price plans from different producers. While this incentivises consumers to intensify market competition between providers, it does little to shift households towards cheaper energy sources and technologies.

Therefore, the challenge remains to link these immediate cost-relief measures to actions that increase the economy's and households' resilience in the face of cost pressures.

Summary and conclusion

Understandably, the public and legislators view inflation and its associated impacts on household economic security with alarm. The recent inflation experience appears associated with a series of cost factors related to the recovery from the COVID-19 crisis. Some reactions overly emphasise the spectre of the so-called ‘great inflation’ of the 1970s and its associated difficult policy measures.

However, a more flexible view of inflation existed historically and in international policymaking circles. These critics emphasise the importance of the ‘real’ economy – growth and employment (and now transition to greener energy sources and sustainability). They caution against over-reacting to inflationary pressures and dogmatic policies with an excessive focus on inflation targeting, and these approaches have a questionable record of effectiveness. More nuanced macroeconomic policies and looser wage bargaining could tackle immediate cost pressures and better direct finance and investment to areas of need.

In the immediate term, state governments can introduce fiscal policies to alleviate cost-of-living pressures. In this regard, initiatives have already been implemented at the federal and state levels. One option may be to develop more thorough programs of integrating these immediate cost-relief measures with expanding affordable credit to priority areas and facilitating public investment, energy reform and greater scrutiny and power over pricing.

References

ABS (2007) *6204.0.55.001 - Labour Force Historical Timeseries, Australia, 1966 to 1984*. Available at: https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6204.0.55.0011966 to 1984 (Accessed: 21 June 2022).

ABS (2022a) *Historical charts from August 1966 to April 2022 | Australian Bureau of Statistics*. Available at: https://www.abs.gov.au/articles/historical-charts-august-1966-april-2022 (Accessed: 30 June 2022).

ABS (2022b) *Selected Living Cost Indexes, Australia methodology, March 2022 | Australian Bureau of Statistics*. Available at: https://www.abs.gov.au/methodologies/selected-living-cost-indexes-australia-methodology/mar-2022 (Accessed: 7 June 2022).

ABS (2022c) *Wage Price Index, Australia, March 2021 | Australian Bureau of Statistics*. Available at: https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/wage-price-index-australia/mar-2021 (Accessed: 24 May 2022).

Agarwal, R. and Kimball, M. (2022a) *The Future of Inflation Part I: Will Inflation Remain High?*, *Finance and Development*. Available at: https://www.imf.org/en/Publications/fandd/issues/2022/03/Future-of-inflation-partI-Agarwal-kimball (Accessed: 24 May 2022).

Agarwal, R. and Kimball, M. (2022b) *The Future of Inflation Part II: How Costly is Inflation?*, *Finance and Development*. Available at: https://www.imf.org/en/Publications/fandd/issues/2022/03/Future-of-inflation-partII-Agarwal-kimball (Accessed: 26 May 2022).

Baker, N. and Rafter, S. (2022) *An International Perspective on Monetary Policy Implementation Systems | Bulletin – June Quarter 2022 | RBA*, *RBA Bulletin*. Available at: https://www.rba.gov.au/publications/bulletin/2022/jun/an-international-perspective-on-monetary-policy-implementation-systems.html (Accessed: 16 June 2022).

Beggs, M. (2015) *Inflation and the Making of Australian Macroeconomic Policy, 1945-85*. London: Palgrave Macmillan.

ABS (2007) *6204.0.55.001 - Labour Force Historical Timeseries, Australia, 1966 to 1984*. Available at: https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6204.0.55.0011966 to 1984 (Accessed: 21 June 2022).

ABS (2022a) *Historical charts from August 1966 to April 2022 | Australian Bureau of Statistics*. Available at: https://www.abs.gov.au/articles/historical-charts-august-1966-april-2022 (Accessed: 30 June 2022).

ABS (2022b) *Selected Living Cost Indexes, Australia methodology, March 2022 | Australian Bureau of Statistics*. Available at: https://www.abs.gov.au/methodologies/selected-living-cost-indexes-australia-methodology/mar-2022 (Accessed: 7 June 2022).

ABS (2022c) *Wage Price Index, Australia, March 2021 | Australian Bureau of Statistics*. Available at: https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/wage-price-index-australia/mar-2021 (Accessed: 24 May 2022).

Agarwal, R. and Kimball, M. (2022a) *The Future of Inflation Part I: Will Inflation Remain High?*, *Finance and Development*. Available at: https://www.imf.org/en/Publications/fandd/issues/2022/03/Future-of-inflation-partI-Agarwal-kimball (Accessed: 24 May 2022).

Agarwal, R. and Kimball, M. (2022b) *The Future of Inflation Part II: How Costly is Inflation?*, *Finance and Development*. Available at: https://www.imf.org/en/Publications/fandd/issues/2022/03/Future-of-inflation-partII-Agarwal-kimball (Accessed: 26 May 2022).

Baker, N. and Rafter, S. (2022) *An International Perspective on Monetary Policy Implementation Systems | Bulletin – June Quarter 2022 | RBA*, *RBA Bulletin*. Available at: https://www.rba.gov.au/publications/bulletin/2022/jun/an-international-perspective-on-monetary-policy-implementation-systems.html (Accessed: 16 June 2022).

Beggs, M. (2015) *Inflation and the Making of Australian Macroeconomic Policy, 1945-85*. London: Palgrave Macmillan.

Bell, S. (2004) *Australia's Money Mandarins: The Reserve Bank and the politics of money*. Cambridge, GBR: Cambridge University Press.

Blanchard, O. and Sheen, J. (2013) *Macroeconomics: Australasian edition*. 4th ed. Frenchs Forest: Pearson Australia Group.

Bowles, S. *et al.* (2018) *Understanding capitalism : competition, command, and change*. 4th edn. New York and Oxford: Oxford University Press.

Chowdhury, A. and K Sundaram, J. (2022a) *Resist Inflation Phobia Coup | Inter Press Service*, *Inter-Press Service*. Available at: https://www.ipsnews.net/2022/02/resist-inflation-phobia-coup/ (Accessed: 24 May 2022).

Chowdhury, A. and K Sundaram, J. (2022b) *Stagflation threat: Be pragmatic, not dogmatic*. Available at: https://www.ksjomo.org/post/stagflation-threat-be-pragmatic-not-dogmatic (Accessed: 18 May 2022).

Coibion, O. and Gorodnichenko, Y. (2011) 'Monetary Policy, Trend Inflation, and the Great Moderation: An Alternative Interpretation', *The American Economic Review*, 101(1), pp. 341–370.

Cormack, L. (2022) *NSW to provide extra $400 to help eligible households cover energy bills*, *Sydney Morning Herald*. Available at: https://www.smh.com.au/politics/nsw/nsw-to-give-extra-400-to-help-eligible-households-with-energy-bills-20220526-p5aot2.html (Accessed: 28 June 2022).

DFFH (2022) *Energy - DFFH Services*. Available at: https://services.dffh.vic.gov.au/energy (Accessed: 8 June 2022).

Dosen, I., Aroozoo, M. and Graham, M. (2018) *Parliament of Victoria - The Cost of Living: An Explainer*. Available at: https://www.parliament.vic.gov.au/publications/research-papers/download/36-research-papers/13860-the-cost-of-living-an-explainer (Accessed: 7 June 2022).

European Parliament (2021) *The ECB's Revised Inflation Target: Compilation of papers*. Available at: http://www.europarl.europa.eu/RegData/etudes/STUD/2021/695478/IPOL_STU(2021)695478_EN.pdf (Accessed: 6 June 2022).

Federal Reserve (2022) *Federal Reserve issues FOMC statement*, *Press Release, May 04, 2022*. Available at: https://www.federalreserve.gov/newsevents/pressreleases/monetary20220504a.htm (Accessed: 15 June 2022).

Federal Reserve (no date) *Federal Reserve History*. Available at: https://www.federalreservehistory.org/time-period/federal-reserve-history (Accessed: 1 June 2022).

Friedman, M. (1970) *The Counter-Revolution in Monetary Theory*. Available at: https://miltonfriedman.hoover.org/objects/56983/the-counterrevolution-in-monetary-theory (Accessed: 18 May 2022).

Glassock, A. (2018) *70 Years of Inflation in Australia | Australian Bureau of Statistics*. Available at: https://www.abs.gov.au/statistics/research/70-years-inflation-australia (Accessed: 24 May 2022).

Grattan, M. (2022) *Politics with Michelle Grattan: Tony Wood on the unprecedented energy crisis*, *The Conversation*. Available at: https://theconversation.com/politics-with-michelle-grattan-tony-wood-on-the-unprecedented-energy-crisis-185225 (Accessed: 17 June 2022).

Greenspan, A. (2007) *The Age of Turbulence: Adventures in a new world*. Camberwell: Allen Lane.

Groningen Growth and Development Centre (2020) *Maddison Project Database 2020 | Releases | Groningen Growth and Development Centre | University of Groningen*. Available at: https://www.rug.nl/ggdc/historicaldevelopment/maddison/releases/maddison-project-database-2020 (Accessed: 1 June 2022).

Irwin, N. (2014) *Of Kiwis and Currencies: How a 2% inflation target became global economic gospel*, *The New York Times*. Available at: https://www.nytimes.com/2014/12/21/upshot/of-kiwis-and-currencies-how-a-2-inflation-target-became-global-economic-gospel.html (Accessed: 19 May 2022).

Kelly, P. (2008) *The End of Certainty: Power, politics and business in Australia.* 2008 ed. Crows Nest, N.S.W: Allen & Unwin.

Kennedy, S. (2022) *What's Happening in the World Economy: Inflation Hawks Inside and Outside Fed - Bloomberg*. Available at: https://www.bloomberg.com/news/newsletters/2022-03-14/what-s-happening-in-the-world-economy-inflation-hawks-inside-and-outside-fed (Accessed: 15 June 2022).

St. Lois Federal Reserve (2022) *Glossary: Economics and Personal Finance*. Available at: https://www.stlouisfed.org/education/glossary (Accessed: 28 June 2022).

Mason, J.. (2022) *Today's Inflation Won't be Solved by the Fed*. Available at: http://jwmason.org/slackwire/todays-inflation-wont-be-solved-by-the-fed/ (Accessed: 15 June 2022).

Mizen, R. (2022) *RBA puts 3.5pc lid on wages*, *Financial Review*. Available at: https://www.afr.com/policy/economy/rba-puts-3-5pc-lid-on-wages-20220621-p5avg4 (Accessed: 28 June 2022).

OECD (2022) *Prices - Inflation (CPI) - OECD Data*. Available at: https://data.oecd.org/price/inflation-cpi.htm#indicator-chart (Accessed: 8 June 2022).

Reserve Bank of Australia (1996) *Australian Economic Statistics 1949-1950 to 1996-1997*, *Occasional Paper No. 8*. Available at: https://www.rba.gov.au/statistics/frequency/occ-paper-8.html (Accessed: 1 June 2022).

Reserve Bank of Australia (2022) *Cash Rate Target*. Available at: https://www.rba.gov.au/statistics/cash-rate/ (Accessed: 7 June 2022).

Shaikh, A. (2016) *Capitalism: competition, conflict, crises*. Oxford and New York: Oxford University Press.

Stevens, G.. (1992) *Inflation and Disinflation in Australia: 1950–91 | Conference – 1992 | RBA*. Available at: https://www.rba.gov.au/publications/confs/1992/stevens.html (Accessed: 24 May 2022).

Stevens, G.. (1999) 'Six Years of Inflation Targeting', *Reserve Bank of Australia Bulletin*, (May), pp. 46–61. Available at: https://www.rba.gov.au/publications/bulletin/1999/may/pdf/bu-0599-2.pdf.

The Economist (2022) *Why the Federal Reserve has made a historic mistake on inflation*, *The Economist*. Available at: https://www.economist.com/leaders/2022/04/23/why-the-federal-reserve-has-made-a-historic-mistake-on-inflation (Accessed: 15 June 2022).

United Nations (1957) *World Economic Survey*, *World Economic Survey: Department of Economic and Social Affairs*. Available at: https://www.un.org/en/development/desa/policy/wess/wess_archive/searchable_archive/1956_WESS_Full.PDF (Accessed: 23 May 2022).

VCOSS (2022) *Affordable living*. Available at: https://vcoss.org.au/budget/2022/05/affordable-living-2/ (Accessed: 28 June 2022).

Waterman, A.M.. (1972) *Economic Fluctuations in Australia,1948 to 1964*. Available at: https://openresearch-repository.anu.edu.au/handle/1885/115153 (Accessed: 23 May 2022).

Weber, I. (2022) *Could strategic price controls help fight inflation?* , *The Guardian*. Available at: https://www.theguardian.com/business/commentisfree/2021/dec/29/inflation-price-controls-time-we-use-it (Accessed: 15 June 2022).

Weise, C.L. (2012) 'Political Pressures on Monetary Policy During the US Great Inflation', *American Economic Journal: Macroeconomics*, 4(2), pp. 33–64.

World Bank (2022a) *Global Economic Prospects*. Available at: https://www.worldbank.org/en/publication/global-economic-prospects (Accessed: 17 June 2022).

World Bank (2022b) *https://databank.worldbank.org/source/world-development-indicators#*, *World Development Indicators*.

Suggested citation:
Reid, B. (2022) Inflation and the cost of Living: policy debates and practice, *Research note, no. 6*, Parliamentary Library and Information Service, Melbourne, Victoria.

Acknowledgements

The Parliament of Victoria Library acknowledges the Traditional Owners of the lands across Australia on which we work and live. We pay our respects to Aboriginal and Torres Strait Islander Elders past and present, and we value Aboriginal and Torres Strait Islander history, culture and knowledge.

Thanks to Ben Huf, Anwyn Hocking and Debra Reeves for comments on earlier drafts.

Research Notes produced by the Parliamentary Library & Information Service, Department of Parliamentary Services, Parliament of Victoria are released under a Creative Commons 3.0 Attribution-NonCommercial-NoDerivs licence.

By using this Creative Commons licence, you are free to share - to copy, distribute and transmit the work under the following conditions:

Attribution - You must attribute the work in the manner specified by the author or licensor (but not in any way that suggests that they endorse you or your use of the work).

Non-Commercial - You may not use this work for commercial purposes without our permission.

No Derivative Works - You may not alter, transform, or build upon this work without our permission.

The Creative Commons licence only applies to publications produced by the Library, Department of Parliamentary Services, Parliament of Victoria.

All other material produced by the Parliament of Victoria is copyright. If you are unsure, please contact us.

Enquiries

Victorian Parliamentary Library & Information Service
Parliament House, Spring Street, East Melbourne 3002
Telephone: (03) 9651 8640
https://www.parliament.vic.gov.au