Australian study shows inflation the result of profit gouging, not wages

Nick Beams
24 February 2023

A study conducted by the Australia Institute, the results of which were issued on Thursday, has found increased profits raked in by major corporations are the main force driving inflation and the notion that wages rises are responsible is "an economic fairytale."

The study found that what it called a "profit-price spiral" was responsible for 69 percent of inflation.

According to empirical data analysed by Dr Jim Stanford, as of the September quarter of 2022 (the most recent for which data is available), Australian business increased their prices by a total of $160 billion a year over and above their higher expenses for labour, taxes, and other inputs.

Without these excess profits, the inflation rate since the pandemic would have been an average of 2.7 percent per year from the end of 2019, barely half the average annual rate of 5.2 percent since then.

Inflation at that level would have fallen within the Reserve Bank of Australia's target range of between 2 percent and 3 percent.

Setting out the results of his study, Stanford said: "We've been told a story that workers need to restrict wage growth and accept a permanent reduction in living standards in order to fight inflation. This evidence shows that's an economic fairytale."

He noted that Australian Bureau of Statistics figures showed that, without the excessive price hikes, inflation would "likely be within the RBA target band and hence there would be no need for the nine, extreme, back-to-back interest rate rises that are crushing households and mortgage holders, fuelling the cost-of-living crisis."

Throughout the period of inflation, real wages have fallen, labour's share of gross domestic product has declined and the share of corporate profit has set records.

Figures released by the ABS show that the situation is worsening with real wages falling by 4.5 percent in 2022, the biggest decline on record.

At the same time, the study found there had been a "dramatic expansion of business profits" with gross corporate profits now amounting to almost 30 percent of GDP, the highest level in history.

The study covers macro-economic data for the whole economy. Its findings are underscored by the profit results of major corporations announced in recent days.

Woolworths, one of Australia's major retail outlets, announced a 25 percent rise in profits with supermarket revenues soaring as a result of elevated food prices. Coles, the other major retail giant, has announced that its profit rose 11 percent in the latest half year, higher than forecasts.

The increases in petrol prices boosted the profits of Ampol, Australia's largest oil refiner, by 30 percent in the first half year.

And the Commonwealth Bank has posted a record profit of $5.1 billion, up by 9 percent, on the back of the RBA's interest rate hikes.

But if there are any awards to be handed out for profit gouging, first prize would surely have to go to Qantas, the major airline carrier and the so-called "Spirit of Australia."

On Thursday, Qantas CEO Alan Joyce announced the company had made a $1.4 billion profit for the December half year on the back of a 222 percent increase in revenue. The company, which is estimated to have received in excess of $2 billion in government assistance during the course of the pandemic, used the shutdown of services to carry out a major job destruction program.

Since the resumption of services, passengers have been hit with major fare increases while flights have been disrupted, together with major baggage handling problems, because of the cuts in staffing.

Joyce defended Qantas's decision not to repay any of the pandemic assistance it received from the federal government, saying it had paid its dues through taxes and by providing services.

He was following the lead of Harvey Norman retail boss Gerry Harvey, who has refused to pay back the $600 million his company received under the pandemic JobKeeper program despite suffering no loss of revenue.

Then, as if to add insult to injury, Joyce announced the company would spend $500 million on a share buyback program boosting the position of investors and market speculators.

The social devastation exemplified in the Australia Institute study in broad brush strokes was articulated in more granular detail in an article by the *Australian* business columnist Robert Gottliebsen based on analysis by the forseechange organisation, headed by Charlie Nelson.

Among other things, forseechange monitors the proportion of adults who feel they have some money to spend after meeting commitments. Gottliebsen said he was contacted by Nelson who told him he was "encountering statistics he had never seen in the 20 years of forseechange's operation."

According to the organisation, for the last decade about 52 percent of the population had money to spend after meeting commitments.

"Then in October-November 2022, this measure of prosperity started to fall so sharply that Nelson assumed it was a statistical error," he wrote.

But it kept falling, with the result that only 42 percent now feel they have money to spend after meeting commitments—a 10 percentage point drop in just a matter of months with renters and recent homebuyers the most impacted.

Gottliebsen noted that those affected have "dramatic plans" to cut back their spending on takeaway food, restaurants, cafes, furniture, electrical appliances and other areas of discretionary spending.

"What we are seeing," he continued, "is just the start because the impact of interest rate rises is still flowing through, and we have an enormous number of people set to switch from low fixed rates to high flexible rates, so the numbers of people with little or no discretionary spending is likely to explode."

He concluded by citing the comments of economist Callam Pickering on the impact of pay rises well below the inflation rate.

"Adjusted for inflation, Australian wages have fallen by 4.2 percent over the past year and by 6.8 percent since their peak. More than a decade of hard-won wage gains—our blood, sweat and tears—lost over the course of just one year," Pickering said.

The Australia Institute study rightly exposed the claim that wages are somehow the cause of inflation as a "fairytale."

But its analysis is based on an even more egregious fiction—that the RBA somehow acts in the interests of the "economy" and the mass of the population.

This leads it to the erroneous conclusion that if only profit gouging, completely ignored by the RBA, had been prevented then the "current painful interest hikes would be unnecessary" and that "the focus of RBA on wage restraint is misplaced and unfair."

The problem with such an analysis is that it completely ignores the global economic reality and advances the view that RBA policies flow from a misreading of the situation.

The fact is that despite the lag in wages behind price rises in all the major economies, central banks the world over are pursuing what the Australia Institute says is a "misplaced" agenda. That is, they have all made the suppression of wages the focus of their high interest rate regime citing, as does the RBA, the "tight" and "very tight" labour market.

The central banks have not got it "wrong" as the Australia Institute implies. Rather, they all have a laser-like focus on an agenda determined by the class interests of the corporations and finance capital which they serve.

Their actions in pumping trillion of dollars into the financial system since the global financial crisis of 2008 and the pandemic crisis of March 2020, in which the RBA took part, have created a mountain of fictitious capital and debt. This now requires the extraction of ever greater amounts of surplus value from the working class to sustain it, not least by driving down wages even further and turning millions of workers into debt slaves for the banks.

The only way to meet this class-war agenda is not through appeals to governments or central banks to change course. It can only be opposed through the fight for a socialist economic program based on bringing the entire financial system under public ownership and democratic control—a program which is at the very centre of the campaign being waged by the Socialist Equality Party in the NSW elections.

Contact the SEP today to join the campaign!

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