

Australian central bank and Labor government cover up corporate profit-gouging

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18 April 2023

Recent reports have shown that Australia's Labor government, the central bank and business leaders are deliberately obscuring how soaring corporate profits are driving the cost-of-living and housing crisis that is having an increasingly devastating impact on working-class households.

Through still-climbing prices, especially for energy and food, and painful interest rate hikes imposed by the Reserve Bank of Australia (RBA), workers and young people are suffering the biggest cut to living standards since World War II, while big business profits reach record heights.

An analysis by economists at the Australia Institute, a Canberra thinktank, reported in February that "excess corporate profits," amounting to \$160 billion, were responsible for 69 percent of additional inflation above the RBA's target range of around 2.5 percent.

As a result of this profit-price spiral, real wages fell by 4.5 percent in 2022, the largest decline on record. This was enforced by the employers, governments and the trade union bureaucracies, which have imposed one sub-inflation pay agreement after another.

The response to the Australia Institute report by the RBA and the Albanese government shows that this is not a mistake. It is a conscious policy directed at the working class, seeking to make it pay for the deepening crisis of the global capitalist system.

There is undeniable evidence that the inflation has been fuelled by profit-gouging, on top of the pouring trillions of dollars into the financial markets, the impact of the COVID-19 pandemic and the US-NATO war against Russia, not workers' wages.

By far the biggest profits were recorded in the mining sector, where corporate operating profits had surged 89 percent since the onset of the pandemic, according to the Australia Institute report. Those profits resulted from sky-high prices for fossil fuel energy, including petroleum products, gas and coal.

Thanks to these price hikes, which drove up consumer energy bills and other prices throughout the economy, the mining sector had captured more than half of all corporate profits in Australian economy for the first time in 2020, doubling its share from a quarter in 2016.

Less spectacular, but still substantial corporate profit increases also had occurred in other sectors of the economy, including wholesale trade, manufacturing and transportation, since the onset of the pandemic in 2020, while profits had dropped in hospitality, arts and recreation.

Aided by a compliant corporate media, Treasurer Jim Chalmers tried to bury the Australia Institute report, saying only that businesses should justify price rises for customers suffering cost-of-living pain—as if this would halt the profit-gouging.

Since then, Chalmers has repeatedly reiterated the Labor government's intent to impose further social spending "restraint" in next month's budget, declaring that to be essential to help the RBA tackle inflation. At the same time, the government is boosting military spending by hundreds of billions of dollars to prepare for war against China and proceeding with equally huge income tax cuts for the wealthiest 10 percent of the population.

Business leaders and the RBA set out to discredit the Australia Institute report. They misleadingly sought to dismiss corporate profiteering as a cause of inflation. "Rising profits are not the source of the inflation pressures we have," RBA governor Philip Lowe told the National Press Club earlier this month.

Speaking on behalf of the financial elite, Lowe insisted that workers had to continue to bear the burden. Wages growth had to be kept below 3.5 percent, less than half the official inflation rate, as measured by the Consumer Price Index, which was 7.8 percent during the last three months of 2022.

Lowe displayed a graph showing non-financial corporate profits soaring from around 18 percent of total in 2002 to

more than 25 percent of total income in 2022. But by artificially excluding mining, the graph suggested that total profits had remained around 15 percent of income. On that basis, Lowe insisted: “Outside the resources sector, the share of national income that goes to profits is basically unchanged.”

A further report by the Australia Institute, issued last week, demolished this claim, saying it was “doubly false”: “First, escalating profits in the mining sector were the dominant source of initial post-COVID inflation, and hence should be a top concern for monetary policy. Second, aggregate profits have also increased significantly in non-mining sectors, further adding to the cost-of-living crisis faced by Australian workers.”

According to Australian Bureau of Statistics data, the report stated, corporate gross operating profits in the mining sector totalled \$295 billion in 2022, equal to 12 percent of national gross domestic product (GDP).

Because of the domestic flow on from this mining profit bonanza, inflation in consumer energy products had been far worse than the overall rise in consumer prices since March 2021. Automotive fuel prices had increased by a cumulative 38 percent, more than three times faster than the overall Cost of Living Index (CPI). Gas and home fuel prices had increased almost twice as fast as the CPI, and home electricity prices had risen 50 percent more than the CPI.

Non-mining private corporations also took advantage of the surge of rising prices. Their annualised profits had risen by \$45 billion. Higher input prices for energy made it easier for firms to disguise the increases in their profit margins.

This rise in the profitability of non-mining industries was sustained even after the phase-out of JobKeeper wage payments and other government subsidies to business during the initial COVID safety lockdowns.

Small businesses also had increased profits by over \$45 billion per year. Workers had suffered the steepest decline in real wages in Australian history and workers’ share of national GDP has declined by 2.3 percentage points since the end of 2019.

The report declared: “Attempts to dismiss the role of excess profits is a dereliction of duty on the part of monetary policymakers.” In reality, the RBA is doing its “duty” to the ruling class. The record demonstrates a calculated whitewash of corporate profiteering by the RBA and the Labor government in order to demand even greater cuts to real wages and government social spending.

Similar profit-gouging is taking place internationally. The European Central Bank recently admitted that inflation began to rise in the second half of 2021—well before the Ukraine war, so often cited as a major cause—and unit profits contributed an average of two-thirds of inflation in 2022.

Research by the ING Bank also showed that the hike in profit margins by food suppliers went back to the start of the pandemic. Margins in the German agricultural sector rose by 63 percent between the end of 2019 and of 2022, almost entirely due to higher profits rather than higher wages.

Conscious of the working-class discontent brewing up over falling wages and rising financial stress, last week’s Australia Institute report issued a warning: “A growing body of international research has confirmed the leading role of corporate profits in recent inflation in industrial countries, including Australia. This evidence has sparked concern and anger among the broader population.”

However, the report ended with an abject plea for “policy-makers to be honest about the impact of business profits on recent inflation.” It urged them to “develop alternative policy responses (such as price caps in strategic markets, excess profit taxes, and targeted fiscal support for working and low-income households) to manage current inflation in a fairer and more effective way.”

Instead, while endlessly feigning concern for the “pain” being felt at “kitchen tables” around the country, the Labor government is preparing a budget that will demand even greater sacrifices from the working class.

Workers should draw their own conclusions from the intensifying offensive by big business, the financial markets, the central banks and the capitalist governments, including the Albanese government. They have to break out of the pro-corporate straitjacket of the union apparatuses and form rank-and-file committees as the basis to organise a unified struggle against the capitalist profit system and its political and trade union servants.



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