

Australian Reserve Bank reveals another Howard government lie

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Yet another set of lies organised by the Howard government was revealed earlier this month—on this occasion by the country's central bank. On April 8, the Reserve Bank made public the fact that, during last year's federal election campaign, it had taken the unprecedented step of lodging official complaints against the government's misleading claims on interest rates.

The bank's disclosure, made almost exactly six months after the October 9 election, went to the heart of the scare campaign that Prime Minister John Howard and his ministers relied upon to win a fourth term in office. Unable to repeat the falsifications used in the 2001 election—on refugees throwing their children overboard and imminent terrorist threats to Australia—or the lies about “weapons of mass destruction” concocted to justify joining the invasion of Iraq, Howard's team resorted to a new tactic.

They flooded the airwaves, newspapers and people's letterboxes with inflammatory claims that the return of a Labor government would send home mortgage interest rates soaring, threatening thousands of over-stretched families with financial ruin. The Liberals particularly targeted outer suburban “mortgage belt” electorates where house and land prices have soared so much over the past decade that even a small rise in interest rates would have devastating consequences for heavily-indebted working people.

Howard set the tone at his opening appearance of the campaign, where he placed interest rates at the centre of the election. He declared that it was “an historic fact” that over the previous 30 years interest rates had always gone up under Labor governments. “It's been calculated that if interest rates, under a future Labor government led by Mr Latham, were to rise to the average of what they were under previous Labor governments, that would add an additional \$960 a month to the average mortgage of the average Australian family.”

In effect, Howard warned that interest rates could more than double to 12.75 percent, the average mortgage rate during the Hawke-Keating government, and applied that figure to a loan of about \$200,000. The alleged “calculation” was fraudulent on two counts. First, it ignored the high interest rates under previous Liberal-National Coalition governments, including when Howard served as treasurer in the Fraser government.

More fundamentally, it flew in the face of the reality that interest rates are primarily determined by global economic conditions and financial markets, not national governments.

To bolster Howard's argument, the Liberal Party attributed his positions to the Reserve Bank. The bank was cited as the source for statements made in the party's campaign advertising. One typical brochure declared: “Over 30 years interest rates have risen to over 10 percent under every Labor Government. Source: Reserve Bank of Australia.” Given that the Reserve Bank formally sets the benchmark domestic interest rate each month, this gave the appearance of confirming Howard's dire warnings with a seal of approval from the rate-setting institution itself.

After keeping quiet for six months, the bank revealed that voters, angered by the misleading claims, had mailed in some of the Coalition's leaflets, requesting that the bank demand their withdrawal. Bank officials concluded that some of the Coalition's material was exaggerated, while some was factually wrong, but said nothing publicly.

Instead, the bank wrote to the Australian Electoral Commission, asking whether the leaflets breached any electoral regulations. Bank officials told the *Sydney Morning Herald* that they did not make their intervention public because they did not want to “politicise” the bank.

Even so, the bank's actions were without precedent. It has never before lodged a complaint to the electoral authorities about the use of its name in deceptive campaign advertising. The complaint was fruitless, however. The electoral commission told bank officials that it had no legal power to prevent a party making false policy claims or predictions.

Significantly, there is no law against false advertising, including the making of phony promises, in federal elections. Section 329 of the Commonwealth Electoral Act outlaws the circulation of material that would mislead or deceive voters. However, the High Court has interpreted that section as not applying to the formation of a voter's voting intention, only to deception about the identity of a candidate or party (for example, a Liberal Party member posing as an environmental candidate).

The electoral commission suggested that the bank write to the local Liberal Party official, W. Meehan, identified on the

pamphlet as having authorised its publication. The bank did so, saying it was “most concerned” about the leaflet and wanted remaining copies scrapped. But it received no reply, and the misleading claims continued to be published in brochures and media advertisements across the country.

When the bank revealed these events, Howard invoked what a *Sydney Morning Herald* editorial dubbed his “three monkeys defence”: he saw nothing, heard nothing, said nothing. He simply denied having any knowledge of the Reserve Bank’s complaint—as if his party officials would not have notified him immediately of such a high-level objection. Although authorised by Meehan, the pamphlet originated in Liberal head office and appeared in different forms throughout Australia. Moreover, Howard was intimately involved in planning every detail of the election campaign.

Howard also flatly defended what he said about rates during the election campaign. With his customary duplicity, he claimed that the government had not promised to keep rates down, merely reminded voters of higher rates under Labor.

Treasurer Peter Costello sought to dismiss the entire affair. “The Reserve Bank has lodged no complaint with me,” he declared. He claimed that the electoral commission had concluded there was “no problem” with the Liberal Party ads because they were “in accordance with the [Electoral] Act”.

As for the Liberal Party national secretariat, it labelled the incident as a “clerical error” stemming from a missing asterisk, which should have sourced the specific interest rate data to the bank. Without the asterisk, it appeared that the bank endorsed the pamphlet as a whole. Yet, it beggars belief to say that the omission was an innocent or isolated error. Similar brochures were produced in many electorates.

The timing of the Reserve Bank’s revelations points to mounting tensions between the government and sections of the business elite. The bank went public just two days after it came under criticism on financial markets for not increasing interest rates again in April, following a 0.25 percent rise in March, despite earlier indications that it would.

In the days before the April decision, Howard and his ministers publicly opposed a rate rise. Their statements were widely interpreted as applying intense pressure on the Reserve Bank. Howard displayed little regard for the supposed independence of the bank—which essentially acts on behalf of the money markets—to set rates without political interference.

Given its election claims, the government could ill afford further rate rises. Media polls showed that its electoral stocks were already plummeting, with the fall attributed to rising rates and the government’s deployment of more troops to the US-led occupation of Iraq.

Those sections of business likely to suffer most from rising rates, such as manufacturers, retailers and the housing industry, joined Howard’s stand. Others however, notably several major banks and financial institutions, reacted with dismay to Howard’s intervention, seeing it as a retreat from their

demands for renewed “economic reform”.

In the lead up to the handing down of the government’s annual budget on May 10, corporate Australia has stepped up its demands for a reduction in taxes for high-income earners, the slashing of social spending, the cutting of labour costs and further attacks on workers’ rights and conditions. In this context, higher interest rates are regarded as a necessary tool to slow down consumer spending and help suppress wage demands and other forms of working class resistance.

The bank raised rates in March, amid the release of statistics showing near-zero economic growth, a massive balance of payments deficit, and soaring foreign debt—mainly to finance the housing and consumer spending bubble on which the Howard government has rested since 1996.

Two weeks before the rate rise, Reserve Bank governor Ian Macfarlane warned that the dangers of inflation would mean years of stunted growth and higher rates. He pointedly blamed the housing boom for diverting investment from economic infrastructure. His comments made clear that the bank was unlikely to stop at one 0.25 percent rate rise.

When the bank failed to raise rates for a second time in April, apparently buckling to the government’s pressure, rumours began circulating on the markets that Macfarlane had been overruled by the Reserve Bank board. Financial commentators accused the government of “heavying” the bank, with Alan Wood writing in Murdoch’s *Australian* that “the Prime Minister is politicising interest rates again”.

Two board members felt obliged to publicly defend the bank’s decision, breaching a convention that individual members do not disclose board discussions. Warwick McKibbin, an economics professor, and Jillian Broadbent, a company director, insisted that the board’s decision had been unanimous. At the same time, they indicated that the board remained inclined to raise rates in coming months.

Howard denied the charge of politicising interest rates, saying the Reserve Bank board members were “not shrinking violets”. Nevertheless, he welcomed the outcome, saying “the bank made the right decision”. This appears to have triggered retaliation in the form of the belated exposure of last year’s campaign lies.

Predictably, the affair was soon dropped by the media. The opposition Labor Party called for a public inquiry—primarily in order to provide the Reserve Bank with the opportunity to “restore its reputation”.



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