Job losses accelerate as interest rates rise in Australia

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A decision by the Reserve Bank of Australia (RBA) last week to maintain official interest rates at 4.25 percent, despite mounting job losses, has underlined the agenda being pursued by the country's financial and corporate elite. Backed by the Gillard Labor government, it is restructuring the entire economy and slashing jobs and conditions in order to compete globally, especially with Asia's manufacturing and services hubs.

The Reserve Bank decision reinforced the effects of the near-record high Australian dollar, intensifying pressure on employers to shut down operations, lower their labour costs and squeeze more from smaller workforces. By rejecting calls for lower rates, the central bank has effectively ensured that the dollar will remain well above parity with the US greenback, a level to which it had been driven by the mining boom.

The bank's announcement has been followed by thousands of more job cuts across a range of sectors, accelerating a wave of job destruction that commenced last year. Nearly 1,000 jobs will be cut by ANZ Bank, 500 by Qantas—with nearly 2,000 more under review, 450 by bedding retailer Sleep City, 400 by surf wear retailer Billabong, and more than 500 by Kell and Rigby, a building firm that collapsed last week. Another 600 jobs are threatened at Alcoa's Port Henry smelter in Victoria, and 800 at Caltex oil refineries in Sydney and Brisbane. Today, Air Australia, a smaller airline, went into liquidation, eliminating 300 more jobs.

Treasurer Wayne Swan welcomed the RBA's decision as a sign of a strong economy. In reality, the decision was not based on optimism about domestic or global economic conditions. Reserve Bank governor Glenn Stevens noted that global growth had deteriorated and a further material downturn was likely. China was slowing and there was "a significant slowing of economic activity in Europe." According to Stevens, unemployment was "just above 5 percent" but "changed behaviour by households and the high exchange rate have had a noticeable dampening effect" in some sectors.

Officially, the January unemployment rate was 5.1 percent, down from 5.2 percent in December. The reduction was driven by an increase of 34,500 part-time jobs. Overall the total number of hours worked actually fell. The participation rate remained unchanged at 65.3 percent. If discouraged job seekers were included in the official statistics, the jobless rate would be considerably higher.

Other surveys indicate an unemployment rate already more in line with those in Europe and the United States. Roy Morgan, a market research company, estimated unemployment at 10.3 percent for January, the highest rate since its surveys began in 2002. A further 7.5 percent of the workforce currently working part-time (934,000 people), were looking for more work. This meant that 17.5 percent of the workforce were either unemployed or underemployed.

The business media praised the RBA rates decision, and in doing so made explicit the underlying policy. An *Australian Financial Review* (AFR) editorial stated: "[T]he RBA needs to maintain a disciplined low-inflation policy to help stabilise the economy as it restructures around the China boom and corrects imbalances that built up in the years before the global financial crisis.” The “imbalances” to which it referred included a lack of labour force “flexibility” and excessive debt, to be paid down via so-called productivity gains.

The AFR noted that “the stronger currency means other sectors such as manufacturing and tourism, are being squeezed or forced to adjust to post-crisis deleveraging.” The editorial warned that “many of the traditional industries under pressure with the strongest political voices” would “try and influence the RBA to cut the price of money, bring down the dollar and force inevitable adjustments onto others.” In other words, the RBA had to stand firm in deliberately forcing “inevitable adjustments” onto the mass of workers.

Likewise, the *Australian* lauded the RBA decision and demanded that the Gillard government make good on its “restructuring” promises. “The prime minister has spoken about a ‘new’ economy. The government must instigate reform to foster this new economy, not simply talk about it, or wait for the central bank to cut interest rates. The government needs to prepare the economy for a sustained period of higher interest rates and a strong currency. Its first priority must be productivity, and a redoubling of efforts to assist businesses to remain competitive in an era of higher costs.”

The RBA kept interest rates on hold, knowing that the country’s major banks would raise their lending rates, thereby increasing the cost pressures on both businesses and the housing market. Since the RBA decision, each of the four big banks has lifted its rates. The decision to do so ‘out of cycle’ (i.e., independently of the RBA) is a new development for the Australian banking sector, one that reflects rising overseas funding costs.

The higher funding costs are the direct result of the turmoil in the European banking sector. By some measures the cost of overseas money is now higher than during the apex of the 2008-09 global financial crisis. Australian banks are highly vulnerable to the worldwide credit squeeze because they still depend on international markets for between 20 and 30 percent of their funding.

The RBA has specifically backed the banks’ decision to raise rates, acknowledging the impact of the worldwide credit crisis. “This global repricing of bank debt has clearly affected the Australian banks’ wholesale funding costs,” RBA deputy governor Guy Debelle said on Wednesday when asked if the interest rate rises were appropriate.