# Australian central bank cuts cash rate to record low

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Driven by concerns about a deepening world slump and trade war, the Reserve Bank of Australia (RBA) this week cut its official interest rate to an unprecedented 1 percent.

It was the second 0.25 basis point cut in two months—a sign of fear in ruling circles of the intensifying impact of the global turmoil on the domestic economy, which is highly vulnerable to reduced international trade and investment.

The RBA’s cash rate is now at a record low, well below the “emergency” level of 3 percent to which the bank slashed the rate during the 2008-09 world financial breakdown.

With world trade already being shrunk by the US trade and economic war on China, the RBA has followed central banks internationally in slashing rates to try to further boost the financial markets while lifting debt-fuelled consumption spending.

Internally, the recessionary slide has been compounded by the collapse since 2017 of a six-year property bubble, plus declining real wages since 2012, soaring household debt and worsening unemployment. Working class households are already experiencing a “per capita recession”—output per person has fallen for the past nine months.

The RBA held off interest rate cuts throughout the campaign for the May 18 federal election. This helped both the Liberal-National Coalition government and the opposition Labor Party to peddle lies about a supposed economic recovery.

All the election promises, made by the Coalition and Labor alike, of increased social spending and tax cuts for “ordinary workers” were based on these false forecasts, as the Socialist Equality Party warned.

The reality that all the capitalist parties sought to hide from view includes the fact that employment levels have fallen by 219,000 to less than 12 million over the past year—taking the combined rate of joblessness (10.3 percent) and “under-employment” (9.2 percent) to near 20 percent.

According to Roy Morgan monthly surveys, nearly 2.6 million workers are either unemployed or only working part-time or casually and needing more work. This estimate is more reliable than the official Australian Bureau of Statistics unemployment rate for May of 5.1 percent, plus 8.5 percent under-employed.

The major corporate job cuts over the past year include an estimated 70,000 jobs lost so far in the construction industry.

While Prime Minister Scott Morrison and his senior ministers played down the latest RBA rate cut, there were expressions of alarm in financial markets.

HSBC’s chief economist in Australia Paul Bloxham said the rate cut suggested the central bank had serious concerns about the economy. “For us, the key message from this is that the RBA must be quite worried about growth—back-to-back cuts suggest they have felt a sense of urgency.”

In his rate cut statement, RBA governor Philip Lowe referred to “the uncertainty generated by the trade and technology disputes” that was “affecting investment and means that the risks to the global economy are tilted to the downside.”

“The main domestic uncertainty” was that “consumption growth has been subdued, weighed down by a protracted period of low-income growth and declining housing prices.” House prices were still falling nationally, even though mortgage lending rates were at “record lows.”

Lowe raised the possibility of further rate cuts, saying the RBA board would “continue to monitor developments in the labour market closely and adjust monetary policy if needed."

At 1 percent, the cash rate is already below the official inflation rate of 1.3 percent. This means that aged pensioners and others who depend on savings to live are seeing their retirement funds shrink in real terms.

Because of government welfare means tests, this particularly affects some 400,000 aged pensioners and 627,000 part-aged pensioners, as well as thousands of welfare recipients. The government has kept its "deeming rate" for average income earned on part pensioners' assets at 3.25 percent, despite five RBA interest rate cuts since 2015.

While pensioners and welfare recipients are being punished financially, the country's "big four" banks are reaping a bonanza, including by not passing on the full RBA rate cuts to mortgage holders, credit card customers and other retail borrowers.

An analysis by the comparison website Mozo estimated that the four banks would pocket an extra $547.6 million per year by not passing on the last two rate cuts in full. That is on top of raking in $18.8 billion between 2008 and 2019 by repricing mortgages above RBA rate movements, according to a report earlier this year by Macquarie Bank.

Because other central banks are slashing rates, the RBA's cuts have not had the desired effect of lowering the value of the Australian dollar to make exports of raw materials and agricultural products more competitive. After the latest cut, the Australian dollar fell from $US69.75c to $US69.57c, then rose back to $US69.85c.

Warnings are being sounded about the disintegration of the post-war economic order as the US moves to reassert its global supremacy at the expense of its main rivals, China, Europe and Japan. Australian capitalism would be devastated in any all-out economic war because it depends heavily on exports to China and investment from the US.

At an economic forum this week, held in the wake of the acrimonious G20 summit in Japan, prominent economist Ross Garnaut said Australia must come to terms with the looming reality that the global trading system is "breaking down."

Former Australian Trade Minister Craig Emerson said the way nations were approaching trade disputes was "almost without precedent" since World War II. He said both the US and China were "flouting the rules," but expressed particular worry at the Trump administration's readiness to "dismantle" the World Trade Organisation.

For now, the Morrison government is trying to exploit the slump to justify handing huge income tax cuts to the wealthiest layers of society, claiming that these will stimulate spending.

The government is rushing a three-stage tax package through parliament, having struck deals with four "crossbenchers" in the Senate. The government is being aided by the Labor Party leadership of Anthony Albanese, who has declared that Labor will back "successful" people, "wealth creation" and a closer partnership with the corporate elite.

The first stage of the package consists of one-off tax rebates of $1,080 for those on incomes between $41,000 and $90,000—offered on the calculation that they will have to spend the money quickly because of their financial stress. This is hardly likely to be enough, however, to halt the globally-driven slide into slump.

By far the biggest benefits of the tax package, moreover, will go to those taking home more than $200,000 a year—that is, the top 5 percent of income recipients. Such incomes are more than four times the median wage of taxpayers, which was estimated last year to be just under $45,000. This is line with the worldwide enrichment of the financial aristocracy at the expense of the working class.