Australian central bank joins “quantitative easing” as global crash deepens

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The Reserve Bank of Australia yesterday entered uncharted waters. It announced unprecedented steps to slash official interest rates to near zero and to formally join other central banks internationally in pumping billions of dollars into the financial markets via “quantitative easing.”

The RBA issued a revealing warning of a “downside risk to the outlook” because of the worsening COVID-19 pandemic, “particularly in Europe.” This statement undercut its own anxious efforts, and those of the federal government, to talk up prospects of an early recovery in Australia from the most serious economic breakdown since the Great Depression of the 1930s.

Treasurer Josh Frydenberg declared that the RBA had “confirmed that Australia’s economic recovery is well under way.” Nothing could be further from the truth.

In fact, RBA governor Philip Lowe said the bank board did not expect it would raise interest rates for “at least three years” and might not do so for the next five years. Giving a rare media conference, Lowe said: “We’ve been hit by the biggest economic shock in 100 years. We need to recognise that the pandemic has inflicted significant damage on our economy.”

These remarks are another telling indicator of the depth and long-term nature of the pandemic’s social and economic impact internationally, and therefore in Australia.

Never before, not even in the 1930s, have interest rates been reduced to such low levels—down from an already record low of 0.25 percent to 0.1 percent, and zero for interbank transactions. This is a feverish effort to supply the corporate elite with mountains of more cheap money, on top of the billions already supplied in federal and state “stimulus packages.”

Nor has the RBA ever resorted to such large-scale government bond purchases, saying it will purchase $100 billion worth of five- to ten-year federal and state government bonds over the next six months. This rapid injection of cash is in addition to the more than $63 billion the bank has spent since March on buying three-year government bonds.

Yesterday’s measures are also on top of the RBA’s “Term Funding Facility” to supply big business, via the banks, with low-cost credit. Lowe reported: “To date, authorised deposit-taking institutions have drawn $83 billion under this facility and have access to a further $104 billion.”

A major element in the decision to resort to quantitative easing (QE), as Lowe acknowledged, is to try to drive down the value of the Australian dollar. That requires matching the escalating measures by the US, Japanese and other central banks to lower the values of their currencies.

As market commentators noted, by turning to QE, after months of denying it would go down that path, the RBA has “crossed the Rubicon” and joined the decade-long worldwide “currency wars.” In response to the global crisis, each national-based capitalist elite is seeking to beat down its rivals.

The Australian dollar has fallen in recent weeks in anticipation of the RBA’s moves and was hovering around US70 cents on Monday. A weaker currency should, in theory, prop up export and import-competing industries as local goods and services become relatively cheaper. But the currency wars will only intensify.

Domestically, the RBA is, in effect, printing money to temporarily finance huge deficits incurred by the federal and state governments through their pro-business spending. That is, until these governments can claw back the cost of their corporate handouts from the working class via cuts to jobs, wages and social services. Lowe denied that the bank was directly underwriting government expenditure. Instead, it was “lowering the cost of government finance.”

Regardless of RBA, government and media claims that the lower interest rates will help home buyers, yesterday’s measures will be of little or no benefit to the millions of working class households paying off mortgages. Even if the rate cut were passed on in full by the commercial banks, which is highly unlikely, a household with a $300,000 mortgage would save only about $23 a month.

An even greater fraud is Lowe’s claim that the RBA is “addressing the high rate of unemployment as a national priority."

In reality, yesterday's announcement will do nothing to ease the plight of the nearly five million workers who are officially unemployed or underemployed, or trying to survive on meagre JobKeeper wage subsidy payments or JobSeeker welfare benefits. Rather, the funds will be poured into corporate pockets, financing higher profit dividends, share buy-backs and stock market speculation.

The RBA cut its forecast peak for the (vastly understated) official unemployment rate to "a little below 8 percent," from the 10 percent it previously expected, and predicted a return to growth in the December quarter. But Lowe said the economy was "not out of recession."

Given the resurging global pandemic and intensifying currency and trade wars, none of the bank's revised forecasts are any more reliable than the previous ones.

In an effort to revive business and consumer confidence, the RBA said: "Encouragingly, the recent economic data have been a bit better than expected and the near-term outlook is better than it was three months ago." However, it added: "Even so, the recovery is still expected to be bumpy and drawn out and the outlook remains dependent on successful containment of the virus."

Long before the pandemic, the RBA had already slashed interest rates to record lows, far below the "emergency" level of 3 percent it set during the global financial crisis of 2008-09. These moves failed to lift the economy out of a deepening slump. Once the pandemic broke out in March, the bank cut its rates from 0.5 percent to 0.25 percent.

Lowe said it was "extraordinarily unlikely" the RBA would follow Switzerland, Denmark, Japan and others down the path of "negative official interest rates," but that could change too. As recently as last November, Lowe said "I don't expect" the "threshold" for QE to be reached in the "near future."

Now, by the middle of next year, the RBA's holding of federal and state government bonds will have doubled to about 15 percent. Lowe said that was still below the 20 percent of government bonds held by the US Federal Reserve and 30 percent held by the European Central Bank.

Yet, the latest measures are expected to triple the RBA's holdings of government bonds from about $180 billion before COVID-19 to $550 billion, or 27.5 percent of gross domestic product (GDP). Westpac Bank economist Bill Evans described the increase as "stunning."

Evans said the RBA was "rapidly closing in on" the US Federal Reserve, which had increased its balance sheet since COVID-19 by 85 percent, from $3.8 trillion to $7.05 trillion, and is now on about 33 percent of GDP.

There is some alarm inside the financial elite about the uncertain fallout from such measures. Ultra-low interest rates push investors away from productive ventures into riskier territory, creating asset price bubbles and accelerating the "search for yield" in murky financial products.

Today's *Australian Financial Review* (AFR) editorial asked: "[H]ow does the Reserve Bank ever get out of the whacky world of fixing a near-zero price on money?" It concluded: "Regrettably, this is unlikely to play out smoothly."

The editorial demanded faster moves to restructure workplace relations, cut jobs, wages and conditions, and reduce social spending to impose the burden of the breakdown on the working class.

At the same time, there is concern in ruling class circles that the RBA's billions will not be enough to avert a financial crisis. The economy was already sliding into recession before the pandemic. Then it recorded a 0.3 percent contraction in the March quarter and a record 7 percent fall in the June quarter.

An earlier AFR article warned: "There are about 4 million people either on the JobKeeper wage subsidy or JobSeeker unemployment benefit, and a wave of business bankruptcies is about to hit as government supports and insolvency shields phase out."

In a speech last week, RBA assistant governor Michele Bullock said banks could face losses due to inevitable business failures and mortgage defaults. "There is going to be further pressure on banks' profits and capital over the coming year," she warned.

"Business failures are currently much lower than usual because of income support, loan repayment deferrals and temporary insolvency relief. But this can't last and we expect to see failures rise."

What this means, in real terms, is that millions of people, including workers and small business operators, are expected to be thrown into financial ruin and poverty, even as the RBA pumps more billions into the hands of the wealthiest layers of society.

According to recent modelling at the Australian National University, the number of people in poverty, after housing costs are included, is set to rise to 5.8 million, or about a quarter of the population, by March.