Australian central bank interest rate rise targets wages, as it hits home buyers

Nick Beams
3 May 2022

The Reserve Bank of Australia (RBA) yesterday increased its base interest rate by 0.25 percentage points, with a commitment for many more rises to come, in what amounted to a pre-emptive strike against workers who are pushing for wage increases to compensate them for rapidly escalating inflation.

The rate rise, the first in more than a decade, was announced less than three weeks before the federal election on May 21. It recalled the decision to lift rates in 2007 before the election of that year which saw the Liberal government of John Howard and the prime minister himself voted out.

Recognising the hit his government had taken, Prime Minister Scott Morrison said the rate rise was due to forces outside his control, but at the same time, he is claiming that only under a Liberal government can they be kept low.

This obvious contradiction was brought out in a radio interview yesterday in which the interviewer said: “You’re telling me that interest rates have been kept low because of you, but now they’re going up you’re telling me it’s not because of you.”

The Labor response was equally bankrupt. Shadow treasurer Jim Chalmers said the rise was part of Morrison’s triple whammy—a cost of living crisis, falling real wages, and rising interest rates—but offered nothing to meet the worsening situation confronting the working class.

Chambers simply issued the vacuous statement that Labor would “do what we can to grow the economy the right way.” In reality, Labor, like the government, is fully committed to implementing the dictates of big business, in other words, to the never-ending assault on the social position of the working class.

The immediate effect of the decision, which lifts the Bank’s cash rate from 0.1 percent to 0.35 percent, is to slug homebuyers struggling to pay off large mortgages because of the escalation in house prices over the past decade. Property speculation has been fuelled by the pouring of money into the financial system by central banks around the world.

The median price for a house in Sydney is now more than $1 million. As a result of yesterday’s increase, which is being immediately passed on by the major banks, the monthly payment on an $800,000 loan, the average for a new mortgage in NSW, will increase by $105. The payment on a $600,000 variable rate mortgage will increase by $81 per month, or $19 per week.

While the increases are relatively small, any rise in mortgage repayments combined with rising inflation and stagnant or falling real wages only compounds the financial difficulties already facing many families.

Joust and Digital Finance Analytics (DFA) research found that some 42 percent of mortgaged households were in mortgage stress in March 2022—as defined by households that consistently spend above their net income. DFA estimated that an interest rate rise of just 0.5 percent would result in an additional 143,124 households in mortgage stress.

Bigger rate increases are set to come. The RBA said the decision to lift rates in the face of rising inflation, now at 5.1 percent and expected to go higher, was taken because of the strength of the Australian economy which no longer needed the emergency rates introduced when the COVID-19 pandemic began.

The RBA said it was “committed to doing what is necessary” to ensure inflation would return to target (between 2 and 3 percent) over time and “this will require a further lift in interest rates over the period ahead.”

In a push for what he called the “normalisation” of monetary policy, governor Philip Lowe indicated at his post-decision press conference that he expected the cash rate to be around 2.75 percent at the end of 2023. In forecasts last year, the RBA said it did not expect to begin lifting rates until 2024.

If the bank's base rate reaches that level, many home buyers, burdened with high mortgages, will face monthly payments increasing by at least $1,500, effectively a wage cut of more than $350 per week.

Acting as the guardian of the interests of the corporations and finance capital, the RBA views homebuyers as collateral damage in a war aimed at suppressing wage struggles. The media coverage of the RBA decision passed over this, but wages were front and centre in the decision and Lowe's press conference remarks.

The attack on workers fighting for wage increases was made clear in the official statement which claimed there was "evidence that wage growth" was "picking up."

It said in a tight labour market there was evidence that numbers of firms were paying higher wages to attract staff. While aggregate wages growth was "subdued" in 2021 and no higher than before the pandemic "more timely evidence from liaison and business surveys is that larger wages increases are occurring in many private-sector firms."

In other words, the RBA, having heard the voice of the major corporations, wants to strike quickly before any significant broad-wages movement gets underway. This issue was underscored by an editorial in the Murdoch-owned *Australian* newspaper on the eve of the decision which referred to the necessity to avoid the "wages breakout" of the 1970s and 1980s, which it repeated in an editorial today.

Lowe elaborated on the RBA statement in his press conference remarks. He said that over recent years the board had "placed considerable emphasis" on labour costs when making its decisions.

This was a reference to the previous low inflation environment and the suppression of wages which enabled the central bank to pump money into the financial system without the fear it would lead to inflation.

However, the situation has changed with the increase in inflation due to supply side shocks. Inflation could fall "if these shocks do not flow through to a persistent change in growth of labour costs."

"But if supply-side shocks do lead to a persistent shift in labour costs growth, inflation will not return to where it was before."

Without naming them directly, Lowe pointed to the key role played by the unions, and the wage freeze imposed by governments, Labor and Liberal.

"There is still considerable inertia in the wages system from multi-year enterprise agreements and current public sector wages policies," he said, "but the direction of change is now clear."

In other words, as workers strive to break out of the straitjacket to which they have been confined by the unions, evidenced by the strikes of teachers, health care workers and others, there could develop much wider struggles for wage increases.

Placed in this context, the RBA decision is very much a pre-emptive strike in a developing war against the working class. The ruling class and its agencies, including the RBA, have a clear agenda: the working class must be made to pay for the deepening crisis of the global capitalist system of which the interest rate decision is a product.

To win this battle, the working class must develop and fight for a program which meets its needs. The socialist program of action advanced by the SEP in the election charts the way forward. It calls for an immediate pay rise for all past erosion of wages and the indexation of wages to keep pace with rising prices.

The latest RBA decision also underscores that the only way to fight the financial octopus, squeezing the very life out of many families trying to put a roof over their heads as it turns them into perpetual debt slaves, is through the nationalisation of the banks and financial institutions, placing them under the democratic control of the working class.

Contact the SEP:
Phone: (02) 8218 3222
Email: sep@sep.org.au
Facebook: SocialistEqualityPartyAustralia
Twitter: @SEP_Australia
Instagram: socialistequalityparty_au
TikTok: @SEP_Australia

Authorised by Cheryl Crisp for the Socialist Equality Party, Suite 906, 185 Elizabeth Street, Sydney, NSW, 2000.