

Australian central bank aims at real wage cuts for years

Nick Beams
21 June 2022

The governor of the Reserve Bank of Australia, Philip Lowe, has made it clear the overriding objective of the central bank is to inflict a real wage cut on workers, now grappling with rising inflation, for “years” to come.

In an address on monetary policy to the American Chamber of Commerce in Sydney yesterday, Lowe said an annual wage rise no greater than 3.5 percent was a good “anchoring point” for unions and employers. This is under conditions where the RBA has forecast that the inflation rate will reach 7 percent by the end of the year, up from its present level of 5.1 percent.

In his speech, he said as the bank moved to push inflation down to its target range of 2-3 percent, “Australians should be prepared for more interest rate increases.” How far they needed to go would be determined by the assessment of the outlook for inflation and the labour market.

He elaborated further in response to questions, saying the inflation rate would remain above target for “years” and the bank would do “what is necessary” to bring it down. If wage increases became common in the 4-5 percent range—well below the bank’s inflation forecast—then “it’s going to be much harder to return inflation to 2.5 percent.”

“Three-and-a-half is the anchoring point that I want people to keep in mind. I know it’s difficult when inflation is higher than that,” he said.

“In the 1970s we got into trouble because wages growth responded mechanically to the higher inflation rate. We had higher inflation, wages responded and then that becomes persistent.”

If there was a similar outcome in coming months, the bank would need to respond with higher interest rates that could lead to an economic downturn. “I’m hopeful we can avoid that.”

In other words, workers are being told that unless they tolerate wage cuts continuing for “years” as the bank’s own projections make clear, then it will push the economy into recession, driving up unemployment to enforce the demands of finance capital.

Lowe said he did not see a recession on the horizon, but the lesson of the past two years was “you can’t rule anything out.”

The minutes of the RBA board meeting of June 7, released yesterday, underscored the direct input of major employers into its decisions—a striking refutation of the myth the central bank somehow operates as impartial regulator of the economy acting in the broader long-term interests of the population.

Explaining the reasoning behind the decision to lift interest rates by 0.5 percentage points earlier this month, the largest single hike in 20 years, the minutes said information from its business liaison unit showed firms were under pressure to increase wages in conditions where the official jobless rate stood at 3.9 percent.

“Firms had become more willing to pass on cost increases to consumers and, in a tight labour market, employees were demanding higher wages as compensation for higher living costs. In such an environment, there is a heightened risk of persistently high inflation, especially if expectations of higher inflation become entrenched.”

The minutes were full of references to “tightening market conditions,” “labour market conditions ... the tightest they had been for many years,” emerging “wage pressures” and a “lift in growth in labour costs in the period ahead” even as it was acknowledged that wages growth remained below the inflation rate.

Throwing his support behind the RBA’s drive to force down real wages, the Labor government’s

treasurer Jim Chalmers welcomed what he called Lowe's "frank" assessment of the economy. He claimed it was possible to be optimistic about the future of the economy "while also recognising that we have to navigate together a really tricky, difficult combination of circumstances."

That "navigation" takes the form of a two-pronged attack. On the one hand, the Labor government is relying on the trade unions to maintain the straitjacket on the working class which has seen real wages cut over the past decade and more. On the other hand, it is backing moves by the RBA to sharply lift interest rates if the wages movement begins to break free of those constraints.

In an interview with the *Australian Financial Review* at the weekend, Chalmers insisted that there should not be adjustments in the minimum wage and the recent decision of the Fair Work Commission for a 5.2 percent increase was a "special circumstance" not to be repeated.

While acknowledging that interest rates will move higher, Lowe claimed the market expectation that the RBA's cash rate will hit 4 percent by the end of the year, from the present level of 0.85 percent, was unlikely. But he did acknowledge that markets had been a better judge than the bank on the direction of interest rates.

He said a 4 percent rate would have a "first order effect" on mortgage repayments, consumer confidence, spending and would involve the sharpest tightening of monetary policy in history.

Even if rates do not rise to the levels forecast by financial markets, the effect of the rises already carried out by the RBA, and those foreshadowed, will add hundreds of dollars to the monthly repayments of home buyers and reach over \$1,000—a cut in disposable income of \$250 per week—in some cases.

Despite data on increasing mortgage stress—a situation roughly defined as one in which 30 percent of income is spent on housing costs—Lowe claimed households were in "good shape" and some \$270 billion had been amassed in additional household savings during the pandemic.

But the additional savings are largely at the upper end of the income scale and do not cover working class first home buyers who undertook large mortgages on the back of forecasts by the RBA that it did not expect

interest rates to rise until 2024.

Lowe said more than 1 million households had never experienced an interest rate rise—the previous increase was in 2010—and the large increases in house prices could be unwound. This could lead to a situation where the fall in prices means homebuyers find the market value of their house is less than the debt they owe to the banks.

Median borrowers, he claimed, have built up "large buffers," but there was a "group of borrowers who have very skinny buffers."

This group comprises working class families who have stretched their budgets to the limit to put a roof over their head. They are now the chief target of the RBA and the Labor government in their united drive to cut real wages in the face of rampant inflation and will be the first in line to be hit by an economic slowdown or recession.



To contact the WSWS and the
Socialist Equality Party visit:

wsws.org/contact