Australian central bank raises interest rates again to drive down wages

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Backed by the Labor government, the Reserve Bank of Australia yesterday hiked interest rates, for the third time in as many months. Central banks and capitalist governments internationally are ramping up rates as a battering ram to suppress the eruption of strikes as workers demand wage rises to cope with the global cost of living crisis.

The RBA lifted its cash rate by 50 basis points to 1.35 percent, up from 0.85 percent and from 0.10 percent until three months ago, just before the May 21 federal election.

Having kept rates at near-zero for 18 months—giving the financial elite access to billions of dollars in virtually free money—the bank is sharply increasing rates in order to crash the economy enough to quash wage claims.

With wages falling further behind prices every day, the rise will particularly hit heavily-indebted newer and working-class mortgage holders, mainly in outer suburban areas. It will take the total increase in mortgage repayments since May to about $500 a month—or $125 a week—on a $750,000 mortgage.

After promising householders, until just eight months ago, it would not start raising rates until 2024 “at the earliest,” the bank’s rate hikes are exacerbating the intense pressure on their over-stretched budgets produced by huge price rises on everything from fruit and vegetables to petrol, healthcare and gas and electricity bills.

In response, Treasurer Jim Chalmers contemptuously urged households to “show that characteristic Australian resilience to get through.” But 40 percent of mortgage holders took out their loans on the basis of ultra-low rates in 2020 and 2021.

Chalmers claimed that things would improve next year. In reality, much worse is to come. Financial markets are pricing in a 3.5 percent cash rate by May 2023. That would multiply the extra mortgage repayments and trigger an economic slump, throwing many out of work.

Announcing the rate rise, RBA governor Philip Lowe warned of “further steps” in the months ahead. How far and fast the bank moved would depend on the global economy, the level of household spending and “the evolution of labour costs.”

By specifically referring to the “labour market” as a factor, Lowe effectively underlined a speech he gave last month insisting that wage rises had to be kept below 3.5 percent, about half the expected official inflation rate by the end of the year.

While claiming that households had “buffers” to withstand soaring rates, the RBA said about 20 percent of mortgage holders would now exceed the 30 percent debt servicing ratio considered safe—doubling the number in a month.

Wealthy households may have “buffers” but not working-class ones. Digital Finance Analytics estimates that nearly two million borrowers will now be in mortgage stress, defined as total spending being higher than their income.

Prime Minister Anthony Albanese’s Labor government swiftly backed the rise, in line with its own declared opposition to “across-the-board” pay rises to match inflation, further exposing Labor’s phoney election campaign slogan of “a better future” with “no one left behind.”

While feigning sympathy for “workers and families already under significant cost of living pressure,” Chalmers said: “Rates were expected to rise, and they’re expected to bite.”

Central banks around the world are aggressively lifting interest rates, knowing it is likely to cause millions of job losses internationally and potentially trigger a recession. In effect, workers are being told to pay the price for a global capitalist breakdown.

The soaring inflation has not been caused by wages, which have fallen or stagnated in real terms for a decade. It has been caused by governments and central banks pouring trillions of dollars into the financial markets over the past decade, aggravated by global supply chain blockages created by the unchecked COVID-19 pandemic and the US-NATO proxy war against Russia in Ukraine. Repeated climate change-driven floods in Australia have added to the spiralling prices of fruit, vegetables and meat.

Recent homebuyers also face the prospect of having "negative equity" in their homes—owing more than the market value. Because of the interest rate rises, house prices in Australia's two largest cities, Sydney and Melbourne, are falling at a double-digit annualised pace, and the declines are starting to spread across the country.

Sky-rocketing interest rates are just part of the Labor government's austerity offensive against working-class households. As soon as it took office, the government began insisting that "dire" economic conditions and budget debt and deficit "challenges" meant "sacrifices" were needed.

Parliament will not assemble until the end of July, more than two months after the May 21 election, but the government has not waited for that. Already, it has imposed a series of cost-cutting and other pro-business measures.

In Ukraine this week, Albanese pledged another $100 million to the US-led war there, taking the total to $390 million, and vowed to back the war "for as long as it takes" to defeat Russia. At the same time, his government is starting to slash social programs to pay for the war effort and the vastly increased military spending to come in the mounting confrontation with China.

Last week, despite the worsening COVID-19 pandemic, the government increased the Medicare rebate paid to general practitioners by just 1.6 percent, far below the official inflation rate of 5.1 percent over the previous year. That rise—just an extra 65 cents, to $39.75, for every standard bulk billed 20-minute consultation—comes on top of a virtual freeze on the rebates since 2014. It will accelerate the numbers of GPs ending bulk billing, and charging up-front fees, which will preclude struggling households from seeking medical care.

During the election campaign, Albanese promised to create a "strengthening Medicare fund" to make it easier and more affordable to see a GP. That promise was to cost $250 million every 12 months from 2023-24 over three years, but fees are rising long before that still-sketchy scheme is due to commence.

The government also last week added to the barriers facing working-class and vulnerable people by removing the Medicare rebates for telephone consultations longer than 20 minutes. Health Minister Mark Butler insisted that such telehealth appointments were a temporary measure for the COVID-19 pandemic, even as he admitted that the pandemic was far from over.

Likewise, the government scrapped the payments of up to $750 available for people who missed work after testing positive for COVID-19, or while isolating as a close contact or caring for a positive case. This will coerce workers into returning to workplaces, for the sake of corporate profit, even when they are infected amid the surging Omicron BA.4 and BA.5 illnesses, hospitalisations and deaths.

Similarly, Labor has imposed onerous new requirements on the unemployed from July 1, forcing them to undertake numerous activities per month, designed to force them into low-paid work.

The government's first acts included authorising compensation payments, now estimated at $1.5 billion, to electricity generators to avoid blackouts caused by the companies' refusal to supply power due to coal and gas prices soaring as a result of the Ukraine war. That fortune, paid out by the Australian Energy Market Operator, will be clawed back from households via higher bills.

The government and the employers are depending heavily on the trade unions to enforce the cuts to real wages, living conditions and social spending. Today's *Australian Financial Review* editorial welcomed the fact that Australian Council of Trade Unions secretary Sally McManus said last month that inflation-linked wage rises were not going to happen in the current wages system, so that "workers will take a real wage cut as the bank prescribes."

Interviewed on Australian Broadcasting Corporation television yesterday morning, Chalmers again emphasised Labor's planned "Jobs Summit" with the unions and business groups.

"We want to bring the country together around these big challenges that we've got," he said. "There's more common ground on these issues than people commonly assume."

Albanese and Chalmers are seeking to reprise the government-union-employer summit convened by the Hawke Labor government in 1983, which laid the basis for the prices and incomes Accords and four decades of the suppression of workers' struggles by the unions.

However, the unions' membership has been decimated by those bitter experiences—they now cover only around 10 percent of the private sector workforce—undermining their capacity to police Labor's program.

But to prevent the unions isolating, stifling and selling out the strikes already taking place among nurses, healthcare workers, aged care workers, teachers, university staff and many others, workers need to build rank-and-file committees, independent of the unions, to fight Labor's offensive.