Australian central bank continues aggressive interest rate rises as government outlines austerity budget

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On Tuesday, the Reserve Bank of Australia (RBA) lifted interest rates for the fifth month in a row, with its fourth increase of 50 basis points. The bank indicated that the hikes would continue in what is a key prong of a broader offensive against the social and living conditions of the working class.

The latest rise takes the cash rate to 2.35 percent, the highest level since 2014, compared with record lows of 0.10 percent as recently as May. These repeated increases are deepening a crisis confronting home mortgage holders. Some have seen their monthly repayments increase by $1,000 or more since the hikes began. A growing number are unable to refinance, raising the prospect of mortgage defaults.

While the RBA claims that the rate rises are tackling inflation, its own statements tacitly acknowledge that the primary drivers of the soaring prices include the US-NATO proxy war against Russia in Ukraine and the supply chain disruptions caused by the "let it rip" pandemic policies of governments around the world, including Australia. The rate hikes will do nothing to stem these factors.

Instead, as in the US and internationally, the rate rise program is a preemptive strike against an emerging movement of the working class for wage increases. The aim is to slow the economy and drive up unemployment, to make it even easier for employers and the trade unions to enforce stagnant or declining pay.

In his statement on Tuesday's increase, RBA governor Phillip Lowe obliquely pointed to this agenda. Lowe repeatedly referred to the "tight labour market." He wrote: "Wages growth has picked up from the low rates of recent years and there are some pockets where labour costs are increasing briskly." The RBA would "pay close attention to… the evolution of labour costs."

In reality, gross domestic product figures released on Wednesday showed that workers continue to suffer real wage cuts.

According to the Australian Bureau of Statistics, total remuneration for employees increased by 2.4 percent over the June quarter, on the back of an increase in 2.9 percent of hours spent at work over the March quarter. The National Accounts measure of price rises jumped by 3.3 percent, moreover, almost a full percentage point above the growth in income.

Close to a third of national income went to profits, at 32.9 percent—the highest level on record. The mining corporations saw their profits skyrocket by 17 percent over the quarter, to $83 billion, based on surging global commodity prices.

Meanwhile, wages accounted for 48.5 percent of national income, the smallest share ever. Real unit labour costs fell by 1.8 percent in the quarter, taking the yearly decline to 4.8 percent. At the same time, real household disposable income fell by 0.5 percent, the third consecutive quarter of decline.

A clear picture of class dynamics is evident. Some of the largest businesses, in the energy and commodities sector, are making a windfall off the back of inflationary prices, while the corporate elite as a whole increases its bottom line through cuts to labour costs, i.e., attacks on wages and conditions.

Meanwhile, workers bear the full brunt of the soaring prices, resulting in a sharp decline in household funds. And they are blamed for the inflation, based on mythical claims of wage growth. These assertions in turn are used to justify further attacks on the social position of workers, including the rate hikes.

Another plank of this onslaught has been outlined over the past two days by the Labor government's Treasurer

Jim Chalmers. In a host of media appearances, he foreshadowed that Labor's October budget will include further cuts to social spending.

Speaking to the Australian Broadcasting Corporation (ABC) this morning, Chalmers declared that Labor's focus was on ending the "rorts" and purported overspending by the last Liberal-National Coalition government. Labor was committed to bringing down the national debt, he insisted.

There would be no additional assistance to working class families hit by the cost-of-living crisis, Chalmers indicated. All that Labor has announced is a small decrease to the cost of some medicines, and a limited expansion of childcare next July, aimed at getting more parents into the workforce. "It's difficult enough, frankly, to make room in a budget with a trillion dollars of debt for those commitments," he stated.

Any additional spending to alleviate the pressures on households would threaten to drive up inflation, Chalmers claimed.

But Labor is pressing ahead with income tax cuts for the wealthiest individuals. It has rejected any windfall tax on the super-profits of the mining and energy corporations, despite their clear inflationary pressure. And it is planning a further increase to military spending, on top of the current $600 billion over the decade, in line with Australia's frontline role in the US-led confrontation with China.

Labor is already implementing measures that will exacerbate the social crisis. It will reintroduce the fuel excise at the end of the month, which was paused for six months at the last budget. That is likely to drive unleaded petrol prices back up to $2.20 per litre, compared with the current $2.

Acting through the extra-constitutional "National Cabinet," Labor slashed the mandatory isolation time for COVID-infected workers from seven to five days, a measure that comes into effect today. The federal payment for some workers compelled to isolate, has been slashed from $750 to just $540, and is set to be eliminated entirely at the end of September.

As well as slashing budget costs, this move is aimed at forcing COVID-infected workers to remain on the job, whatever the health consequences, to address labour shortages that are themselves a result of the profit-driven "let it rip" policies.

The interest rate hikes are pushing millions of working-class households to the brink. Already, an estimated 45 percent of households with a mortgage are in stress, spending more in total costs than they are earning.

If, as many economists predict, the cash rate reaches 3.35 percent by February, the cumulative increase to monthly repayments since May on a 25-year, $1 million principal-and-interest loan will reach $1,800.

Increasingly, there are warnings of households falling into a "mortgage prison." An ABC article this week noted that those whose deposit was just 20 percent or less of the value of the property they are buying are at particular risk. A decline in the worth of their underlying asset, their home, could preclude them from refinancing under more stringent loan requirements introduced over the past 12 months. According to some analysts, property prices in Sydney have fallen by 10–15 percent over recent months, with further declines likely.

The social crisis is helping to fuel a developing movement of the working class, reflected in strikes by nurses, teachers, rail staff and others. The corporatised trade unions are doing everything they can to isolate these struggles, to ensure that the big business agenda of the Labor government and the employers can proceed.

At the same time, the unions are directly enforcing real wage cuts. To cite two of dozens of examples, earlier this year the Australian Education Union locked around 70,000 Victorian school teachers and staff into a four-year agreement that provides for pay "increases" of less than 2 percent per year, when the understated official inflation rate has already reached 6.1 percent. In New South Wales, the Rail Tram and Bus Union is calling for yearly pay rises of just 3.5 and 4.3 percent for the state's train drivers and staff.

In other words, the fight for genuine pay increases and against the cuts to social spending, requires a break with the unions and a political struggle against the Labor government.