Reserve Bank of Australia chief delivers a blunt warning as interest rates lifted again

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The Reserve Bank of Australia (RBA) yesterday again lifted interest rates by 0.25 percent as it continues the fastest tightening of monetary policy in 30 years. The bank is hitting home buyers with increases in their mortgage payments by hundreds of dollars a month.

Yesterday's decision was followed by a significant speech by RBA governor Philip Lowe to a business dinner in Hobart.

Lowe warned that if workers press ahead with wage demands in response to the ravages of the highest inflation in more than three decades, the central bank will lift interest rates to induce a "severe recession."

As always, this class war agenda was couched in "central bank speak," where such policies are masked by the fictional claim of doing what is necessary for the good of the "economy," rather than to benefit the corporate and financial elites. But the message was unmistakable.

Lowe said the RBA board had "discussed the consequences of not raising interest rates, and allowing high inflation to persist and become entrenched in expectations."

Adopting the tone of a religious preacher, who attributes social and economic ills to an act of God to which people must submit, he continued: "If this were to happen, the evil of inflation would be with us for longer and the eventual increase in interest rates needed to bring it down would be greater. This would increase the risk of a severe recession and a sharp rise in unemployment."

In other words, if workers fight the cuts in real wages caused by inflation and severe reductions in their disposable income because of rising mortgage payments and rents produced by the seven consecutive RBA rate rises since May, they will be hit with recession and unemployment.

The so-called fight against inflation waged by the RBA and central banks around the world is utterly bogus. According to the RBA statement announcing the latest rise: "Returning inflation to target requires a more sustainable balance between supply and demand."

Interest rate rises will do nothing to increase the "supply" of essential goods and services such as food, electricity, petrol and gas, and lower their cost.

The rises are aimed solely at cutting the "demand" for labour and increasing its "supply" through unemployment. The one price on which the RBA is focused is the price of labour power, wages.

This was set out in the RBA statement on its interest rate decision.

As with all previous statements since it started raising rates, it noted that the "labour market remains very tight," and "given the importance of avoiding a prices-wage spiral" it would "pay close attention to both the evolution of labour costs and the price-setting behaviour of firms in the period ahead."

Market forecasts are that the RBA rate will rise from 2.85 percent to just under 4 percent by the middle of next year.

The latest rise means that since May monthly mortgage payments on a 25-year $500,000 mortgage have risen by $760, $1,140 for a $750,000 mortgage and $1,520 on a $1 million loan.

The latter is not uncommon in the cities of Sydney and Melbourne, where house prices rose by 20 percent in 2021 on the back of the previous low-interest rate regime as families were drawn in by the RBA's claim that interest rates would not start to rise until 2024.

But while mortgage payments are the biggest single item in many household budgets, they are not counted in the official inflation index.

Apart from the interest rate decision, the most significant announcement by the bank was the upward revision of its inflation forecast.

The official inflation rate now is already at 7.3 percent, a considerably understated number as far as its impact on working-class families is concerned, but the RBA lifted its forecast from 7.75 percent by the end of the year to 8 percent, and with higher inflation to continue longer than previously predicted.

The bank also revised down its forecast for economic growth, saying that, after reaching 3 percent for this year, it would fall back to 1.5 percent for 2023 and 2024, accompanied by a rise in the unemployment rate from 3.5 percent to more than 4 percent in 2024.

The increase in the jobless rate could well be an underestimate because of what the RBA said was "uncertainty" in the "outlook for the global economy, which has deteriorated over recent months."

Lowe referred to the worsening global situation in his Hobart speech. He said his visit to Washington last month with Treasurer Jim Chalmers for G20 and International Monetary Fund meetings had been a "sobering experience." He said "we are living in a challenging period" and "we can't ignore the global environment."

Domestic forces are also at work in exerting downward pressure on growth. Consumer spending, a key component of GDP, can be expected to slow, if not contract.

This is because, as the RBA put it, "higher interest rates and high inflation are putting pressure on the budgets of many households" and consumer confidence is falling.

Retail sales were up for the ninth straight month in September. But much of this is likely because consumers are simply paying more for fewer goods.

For many necessities, the price rises, as recorded by the Australian Bureau of Statistics, are into double digits, well above the official rate.

For example, the cost of a new dwelling rose by 20.7 percent in the year to September, cooking oils and fats were up by 19.3 percent, petrol 18 percent, vegetables 17.2 percent, gas 16.6 percent, milk 16.2 percent, non-durable household products 16. 2 percent and fruit 13.8 percent.

Government subsidies and rebates in some states stopped electricity prices rising so fast in the year to September, but the Labor government's budget, brought down last week, forecast they will rise 56 percent over the next two years.

The RBA concluded its latest statement by declaring it remained "resolute in its determination to return inflation to target [around 2 percent] and will do what is necessary to achieve that."

In seeking this objective on behalf of the corporate and financial elites, the RBA is working in tandem with the Labor government and the trade union bureaucracy.

Following the interest rate decision, Treasurer Chalmers delivered some perfunctory remarks about the impact on households as he insisted that "inflation was the primary influence on the budget."

As with all such pronouncements, this was coded language. Its essential content was that the Labor government had drawn the lesson of the recent UK financial and political turbulence. The ousting of Prime Minister Liz Truss, after serving the shortest term in office in history, demonstrated that governments everywhere had to obey the dictates of global financial markets.

The role of the trade union bureaucracy in imposing this agenda is no less important. Tied by a thousand strings politically and materially to the ruling class as part of a privileged upper middle class, its essential role is that of the industrial policeman as it seeks to impose one sub-inflation wage agreement after another.