Reserve Bank of Australia again lifts rates to cut wages

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Confident of the Labor government's support, the Reserve Bank of Australia (RBA) yesterday again lifted interest rates by another 0.25 percent, explicitly for the purpose of continuing to cut real wages by keeping pay rises well below the soaring cost of living.

The rise, the eighth monthly hike in a row, took the RBA's cash rate from 0.1 percent to 3.1 percent since May. This is the highest level in a decade and the fastest tightening cycle in 30 years. It is rapidly adding thousands of dollars a month to mortgage payments for already stressed working-class households.

In announcing the rise, RBA governor Philip Lowe reiterated the central bank's focus on "the importance of avoiding a prices-wages spiral" and "the evolution of labour costs." He warned of even higher rates in 2023, saying that the bank "expects to increase interest rates further over the period ahead."

Lowe emphasised that the bank's board was "resolute" in tackling inflation. That is code language for driving wages down further below soaring prices in order to boost corporate profits. This is being done under the patently false claim that workers' wages are the cause of inflation.

In reality, there has been a decade of falling real wages, which has accelerated during the COVID-19 pandemic, inflicting the biggest cut in working-class living standards since World War II.

Lowe effectively doubled down on his blunt comments last month, when he warned that if workers pressed ahead with wage demands in response to the highest inflation in more than three decades, the central bank would lift interest rates to induce a "severe recession."

Backed by the Labor government, the ruling class is demanding that workers be made to pay for what they are not responsible: The global inflationary spiral and economic crisis caused by the disastrous "live with the virus" COVID-19 policies and resulting workforce illnesses and supply chain problems, the pouring of billions of dollars into the financial markets and corporate "support packages" and the impact of the US-NATO proxy war against Russia on world food and fuel prices.

As well as seeing their wages fall further behind prices, growing numbers of working-class households face "mortgage stress"—paying more than 25 percent of their take-home pay on repayments.

Monthly repayments on a 25-year, $500,000 mortgage have now increased by $834 since May, $1,251 for a $750,000 mortgage, and $1,668 for a $1 million loan, according to loan comparison website RateCity.

The Roy Morgan market research firm estimates that a quarter of all home loan borrowers—more than 1.1 million households—may have to put more than 25 percent of their after-tax incomes toward their mortgage repayments by January. Nearly 14.4 percent of mortgage borrowers were already considered "Extremely At Risk" as of October 2022—the highest level since before the pandemic.

The housing and financial crisis will worsen during 2023 because about one-third of mortgages are on fixed rates, and about two-thirds of them are due to expire next year. Many loans were taken out at fixed rates of around 2 percent, relying on RBA statements that it would keep rates at record lows until 2024 at least.

During 2020 and 2021, confronted by astronomical housing prices, hundreds of thousands of first-home buyers took out huge loans after the RBA slashed its cash rate to 0.1 percent in order to pump cheap money into the financial markets. By the middle of 2021, nearly half of all new mortgages by value were being extended on fixed rates, predominantly with a maturity of two years.

If the RBA pushes its cash rate up to 3.85 percent in the first half of 2023, as predicted by two of the four major banks, these borrowers will face paying 6-7 percent. At the same time, their property valuations are falling and banks are imposing higher income requirements for loans, leaving people trapped and in danger of default.

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RateCity estimates that a household that borrowed $750,000 and fixed for two years at 1.94 percent—the average offer among the big four banks roughly 18 months ago—will pay an extra $2,000 a month, or 65 percent, more. Their monthly repayments will jump to $5,200 when their fixed loan reverts to a variable rate, which could be as high as 7.18 percent.

That is equivalent to an absolute pay cut of $500 a week, on top of sky-rocketing prices for food, energy and petrol. The RBA yesterday reiterated its forecast that the official inflation rate will rise from 6.8 percent to 8 percent by the start of 2023. That figure, based on the Consumer Price Index, excludes rate rises. It also underestimates the impact on working-class households because prices for "essential" items have risen faster.

Housing unaffordability for both homebuyers and renters is already at staggering levels. The latest ANZ/CoreLogic Housing Affordability index estimates that the portion of income needed to service a mortgage for an average Sydney home reached a record high of 51.1 percent during the third quarter of 2022. Hobart and Melbourne were close behind, on 45 percent and 42.4 percent respectively.

Last week's annual Rental Affordability Index, published by National Shelter, Community Sector Banking, Brotherhood St Laurence and SGS Economics & Planning, found that "low and moderate-income Australian households" were "facing moderate to extreme rental stress nationwide"—spending more than 30 percent of their income on rent.

Some 42 percent of low-income households were in rental stress, up from 38 percent in 2008, and struggling to find money to pay for food, heating and healthcare. There was no affordable rental housing anywhere for single pensioners, people on JobSeeker unemployment payments, aged pensioner couples and single part-time working parents, apart from in regional South Australia.

An *Australian* editorial today voiced nervousness about the danger of an economic meltdown. "About $370 billion of mortgages will come off fixed rates next year, creating a ticking debt bomb that threatens to blow out families' interest payments by as much as 65 percent and put a hole in economic activity," it noted.

Despite feigning sympathy for financially-stressed families—as he has done for months—Treasurer Jim Chalmers defended the RBA. He told the Australian Broadcasting Corporation yesterday: "So there's a range of things going on in the economy but still the defining challenge is inflation. That's what the Reserve Bank was responding to today."

Since taking office in May the Labor government has demanded "sacrifices" from workers, dropping its election slogan of "a better future." In fact, with its state and territory Labor counterparts, it is spearheading the suppression of wages by imposing punishing sub-inflation wage caps on nurses, teachers and other public sector workers. In October, the Albanese government announced an interim pay increase of just 3 percent for Australian Public Service employees, less than half the official inflation rate.

That underscores the fraud of Labor's claims that its just-passed industrial relations bill seeks to get wages moving. Facing brewing discontent and breakouts of strikes, the Labor leaders are relying on the trade union bureaucrats to enforce the pro-business agenda laid out in the Albanese government's first budget on October 25, which was predicated on at least two more years of real wage cuts.

This offensive against the working class is part of an international assault by the global conglomerates, capitalist governments and central banks. The International Labor Organisation reported this week, compiling data from 28 countries, that the total wage bill decreased by an average of 6.2 percent in 2020, equivalent to the loss of three weeks' wages for each average employee.

This underscores the need for workers to build rank-and-file committees to break out of the union straitjacket, link up with workers worldwide and advance their own demands, based on human and social need, not the dictates of the crisis-wracked private profit system.

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