Reserve Bank of Australia governor Lowe, political theatre and interest rate hikes

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An orchestrated political operation is underway over economic issues. It aims to deflect the growing anger and hostility in the working class over interest rate rises by the Reserve Bank of Australia—nine hikes in less than a year—which have cut hundreds of dollars a week from the income of home-buyers already battling to make ends meet because of the rising cost of living.

This campaign centres on the persona of Reserve Bank governor Philip Lowe. It is trying to promote the illusion that the interest rate increases are the result of his personal decisions and if there is a change at the top then a better policy may result.

The overriding concern of all sections of the political and media establishment is that workers should not draw broader conclusions from the life-wrenching experiences they are undergoing.

Above all, the fear is that workers start to probe the very workings of the capitalist economy and its financial mechanisms and thereby come to understand that the rising tide of economic devastation is not simply a product of the actions of the individuals who oversee its operations, but stems from the very nature of the capitalist economy and its financial system.

And if that conclusion is drawn, then the question of a socialist perspective, based on the overturn of the profit system and all its mechanisms and their replacement by a higher form of society begins to arise—the question of questions that the ruling class and all its agencies seek to smother at all costs.

One of the issues which makes Lowe so useful in this operation has been his claim that the ultra-low interest rates of 2020 and 2021, introduced by central banks around the world to boost financial markets at the start of the pandemic, would remain in place until at least until 2024.

Tens of thousands of home buyers, facing rising house prices, were lured into the market by the RBA's so-called "forward guidance," and took out loans they would not be able to afford if interest rates rose even by only a small amount.

Many of these buyers are now "under water" and have been left with an outstanding loan larger than the price they would receive if the house were sold.

According to a report in the *Australian Financial Review* (AFR), around 120,000 home-buyers who bought at the tail end of the pandemic boom have negative equity and a total of more than 289,000 who bought between November 2021 and April 2022 are edging closer to that situation.

But that is only the tip of a very big iceberg. It has been estimated that around 25 percent of all home-buyers are either in, or on the verge of mortgage stress, defined as a situation where 30 percent of household income is devoted to housing costs.

The commitment by the RBA to keep raising rates, at least for the foreseeable future, means this percentage is going to rise.

Already for a borrower with a loan of $500,000—very much at the lower end of the scale under conditions where the median price for a house in major cities is $1 million and more—interest costs have risen by $908 a month since rates started to rise last May. For a mortgage of $750,000, the figure is $1362 a month—a cut in real disposable income of almost $350 per week.

The ideological campaign to divert workers from considering why, to simply provide a roof over the head of their families they are being turned into debt slaves for the banks, some of the most profitable in world, entered the realm of political theatre this week.

The occasion was the questioning before a Senate estimates committee of RBA Governor Lowe. The lead role in the performance, which had more the character of a farce than a drama, was played by Greens finance spokesman Nick McKim who asked Lowe why he should be allowed to continue in the job after his assertions that low rates would last until 2024.

Turning to the present regime, McKim continued: "You seem to be prepared to smash Australia into a recession by trying to squash demand in response to inflation."

Lowe batted away the claim saying that was not the bank's objective and all it was attempting to do was bring down inflation which was "dangerous" and "corrosive" at its present level of 7.8 percent.

But he also got into the theatricality of the hearing, saying he had a lot of people writing to him telling him about their personal situation and that "it's tough, really tough, I understand that.

"I read those letters and hear those stories with a very heavy heart. I find it, you know—personally—very disturbing."

But after this expression of his inner angst, Lowe went on to insist that more rate hikes had to come.

An editorial in the AFR, one of the key voices for Australian finance capital, was not slow in exposing the bankruptcy of Lowe's opponents at Senate estimates.

As it pointed out, "no senator—including the Green's Nick McKim, who has called for the governor to be sacked—undercut the policy case Dr Lowe set out for why interest rates will need to rise further to get inflation back into the central bank's 2 percent to 3 percent inflation target."

Last Monday, before the Senate hearing, *Sydney Morning Herald* economics columnist Ross Gittins added his contribution to the campaign to cause as much confusion as possible.

Gittins always plays a certain role in the discussion of economic questions by suggesting, against the vicious nature of finance capital's agenda, that a more "reasonable" alternative can be found within the framework of the profit system.

And so it was in this case.

The headline of his comment piece was "Lowe's not the problem, the system is rotten."

But anyone who read the article in the hope it might provide some insights into the actual workings of the finance capital system and the driving forces behind the interest rate hikes was in for a rapid disillusionment.

Posing what he said was the fundamental question, Gittins wrote, "can't we find a better way to manage the macroeconomy than relying so heavily on dicking around with interest rates?"

Gittins, who often likes to hark back to the "good old days" when capitalism was not so bedevilled by crisis and holds out the prospect they could return in some form if only there were a change of mindset, said there was nothing God-ordained about central banks having the primary responsibility for stabilising the economy.

Someone as "ancient" as him could recall the time when this was in the hands of elected governments and their fiscal policies.

But he could offer no explanation as to why that was no longer the case, much less probe the issue of how the key role of central banks was bound up with the processes of financialisation—essentially the domination of finance capital over the economy which began in all major economies in the 1980s.

Accordingly, he came up with a completely erroneous account of the role of the RBA (and other central banks pursing the same high interest rate regime) claiming their role was to try to "stabilise" the economy.

It is nothing of the sort. As they began their interest rate hikes in the first half of the year in response to the highest inflation in four decades, central banks, from the US Federal Reserve down, have made it clear their over-riding objective is the suppression of the wages struggles of the working class in response to the ongoing and mounting daily cost of living crisis.

This agenda was laid out in the RBA's latest monetary policy report earlier this month.

If an attempt were made to total up the number of times phrases such as "tight labour market," "very tight labour market" and similar appeared every time inflation was mentioned, then one would lose count.

The RBA knows full well that wages are not the cause of the price hikes. But it also knows that the greatest danger to the financial system over which it presides, and its profit-making capacity, is a movement of the working class which has the potential to challenge the capitalist order itself.

It is true that in pursuit of its goal of wage suppression the RBA does not want to induce a recession. But if that is what is necessary to impose further wage cuts on top of those of the past several decades and to suppress the working class through unemployment, then that is what will be done.

Ignoring all these issues, because they go to the key class-based mechanisms as the heart of the capitalist economy and its financial system, Gittins ended up advancing the very position he claimed to oppose at the outset—that it was all a matter of Lowe and his thinking and that of other central bankers.

And so at the conclusion of his piece he explained central bank dominance as follows.

Posing the question as to why the RBA did not leave management of the economy up to the government and its fiscal policies, he wrote: "Because it, like other rich-country central bankers now thinks it *owns* macroeconomic management.

"It just had to be out there, pushing the treasurer and Treasury away from the microphone and showing it was in charge—which made matters worse. This is the central banking problem we—and the other rich countries—should be grappling with."

In other words, the problem facing masses of people the world over is not rooted in the inherent logic of the capitalist system of which the evisceration of every social right, including the right to have a roof over one's head, is an expression, but is merely a result of "pushy" central bankers.

Altogether different conclusions need to be drawn by the working class. First, the necessity to expose the mechanics of the class war underway in order to prepare the way for the overthrow of the capitalist economy and replace it with a socialist economy based on human need and, second, the importance of grappling with this question as evidenced by the continuous efforts by all the ideologists of the ruling class to cover it up.

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