Reserve Bank of Australia pauses rate hikes but insists that they are not over

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With the fastest rise in Australian interest rates seen in decades, attempts have been made to ascribe this policy, which slashes hundreds of dollars from the monthly disposable income of working-class families struggling to buy a home, to the mistakes and mismanagement of Reserve Bank of Australia (RBA) governor Philip Lowe and his board. The RBA had imposed ten consecutive monthly increases before this pause at its April meeting on Tuesday.

The implication of such assertions in that some alternative policy could and should have been pursued within the capitalist economy.

An analysis by the revolutionary Marxist Leon Trotsky nearly 90 years ago in relation to a deepening economic and political crisis in France provides the real framework for grasping the meaning of the present situation.

"The policy of plundering and suffocating the masses," he wrote, "is not an evil whim of reaction but the consequence of the decomposition of the capitalist system. This is the basic fact which every worker must embrace if he does not want to be deceived with hollow phrases."

The significance of Trotsky's remarks was underscored by the latest monetary policy decision of the RBA on Tuesday and the appearance of Lowe at the National Press Club the following day. He expressed his heartfelt concern for the worsening situation facing growing sections of the population, but made it clear the interests of finance capital dominate.

Announcing the decision to pause rate rises, the RBA said it was prepared to resume them, particularly if workers pushed for greater wage rates merely to keep pace with the highest rate of inflation in four decades, let alone actually advance their position.

The RBA's monetary policy statement identified wages as the key target in the so-called fight against inflation.

These issues were further elaborated by Lowe in his Press Club address and in the question-and-answer session which followed.

"The decision to hold rates steady this month does not imply that interest rate increases are over. Indeed, the Board expected that some further tightening of monetary policy may well be needed to reduce inflation within a reasonable time," Lowe said in his opening remarks.

Over the course of the past year, the pretense that the RBA policies have got anything to do with bringing down prices has largely been jettisoned. They are directed to slowing the economy by reducing demand and increasing unemployment. Lowe noted that "when there is strong demand for labour relative to supply, workers tend to seek, and can achieve larger wage increases."

Interest rate increases slow the economy, meaning there is less demand for labour, while the supply of labour is increased by pushing up unemployment.

The RBA does not develop its policies in a vacuum. While this is never acknowledged publicly, it is very much dependent on the trade union bureaucracy to suppress wages struggles.

Asked why the RBA was pausing its monetary policy, when other central banks were continuing to increase interest rates, Lowe said "lower wages allows us to be a bit slower in raising interest rates." And he said it was "noteworthy that the recent high inflation had not been driven by excessive wages growth."

But Lowe insisted that if wage increases were above 3.5 percent—well below the inflation rate of 7.8 percent—and went to 5 percent, still a real cut, then the RBA would have to act on interest rates.

While never explicitly pointing to the role of the unions, in the past Lowe has referred to the rigidity of the state-regulated Australian industrial relations system, as one of the key reasons for lower wage growth.

But this system, which is presented as somehow all-powerful, representing the rule of law and being unchallengeable, could not function for a single day without the collaboration of the trade union apparatuses.

In response to a question based on a recent report from the Australia Institute which claimed that 69 percent of inflation could be accounted for by increased profits, Lowe said the profit share had remained constant and firms were merely passing on cost increases.

Figures presented in his own remarks blew a major hole in these assertions. Lowe noted that the price of electricity, one of the major factors weighing on household budgets, increased 12 percent last year, as measured by the CPI, and the RBA was expecting an increase of around 15 percent this year.

"This surge in prices," he continued, "is not because the demand for electricity has been unusually strong. Total electricity consumption had been little changed over the past decade… Yet prices have increased significantly."

And he noted that it was "increasingly clear that the higher interest rates are having an impact on aggregate household spending" and that consumption growth had "slowed considerably" and was now "below average."

A major reason is the increase in mortgage repayments due to the rise in interest rates.

The hikes have cut disposable income by hundreds of dollars a month as fixed interest rate contracts for a growing number of home buyers expire and they move to high variable rates.

Lowe rejected the claim by one journalist that home buyers were approaching a "cliff," saying he was not in favour of that language, and it was more of an upward sloping ramp.

However, he did report that the increase in mortgage rates "has had a significant effect on household budgets and we anticipate that required mortgage payments will reach a new record high of almost 10 percent of household disposable income by the end of the next year."

This average figure, however, obscures the much worse situation facing many young working-class families who bought at the height of the housing boom, drawn in by the RBA's claims that interest rates would remain at ultra-low levels until the end of 2024.

Lowe voiced his concern for families struggling under the weight of rising debt. He said he had read letters from people in this situation and those facing rising rents with a "heavy heart."

But he then insisted that interest rate hikes would continue regardless, if that was what was needed, as if to underscore the remarks of Trotsky cited at the beginning of this article that the capitalist juggernaut proceeds with a ruthless logic, crushing all those in its path.