Major restructure of Australian central bank to intensify class-war agenda

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The Reserve Bank of Australia (RBA) is to undergo the most sweeping changes in decades, possibly in its entire history. The Labor government, backed by the Liberal-National opposition has signalled that it will implement the 51 recommendations of an inquiry set up by Treasurer Jim Chalmers into the bank's structure and operations.

The most important change is the splitting of the RBA's operations in two. There will be a governing council which is responsible for its day-to-day operations and a new board established to set monetary policy, above all interest rates.

Previously this had been the province of the Reserve Bank board under the governorship of Phillip Lowe.

The separate monetary policy board will include the RBA governor, the deputy governor, the Treasury secretary plus six others with expertise in the financial system, the labour market, and the supply side of the economy.

The changes are being presented as enabling the RBA to better serve the interests of the population and their economic well-being after what are regarded as a series of policy blunders by the RBA during the pandemic, in particular the statement by Lowe at the end of 2021 that there would no interest rate increases until 2024.

This is PR fiction. The real aim of the revamp is to forge the RBA as a more efficient mechanism for implementing the attacks on the working class that are being driven by the deepening crisis of the global capitalist economy and the major commitments by the Labor government to increase military spending in line with the accelerating US-led war drive against China.

Politics and economics are closely intertwined in the restructure.

The RBA's 10 successive interest rate hikes since March 2022 have led to a deep hostility to its operations. The increases have sliced hundreds of dollars from the disposable weekly incomes of families struggling to pay off a home, many of them sucked into purchases after Lowe's statement that interest rates would remain at ultra-low levels.

In a comment on the decision, Tom Dusevic of the *Australian* noted that as an institution, the RBA "at its heart rises or falls on the state of public trust and the confidence of the financial community. Without it, the central bank can't effectively do its main job, which is holding inflation in check."

While it is never explicitly stated, "holding inflation in check" means developing a monetary policy regime which suppresses the wages struggle of the working class in response to the largest price hikes in four decades.

Dusevic noted a recent speech by the general manager of the Bank for International Settlements, Augustin Carstens, in which he warned that inflation was not going to go away by itself, and aggressive rate hikes would be needed.

Coupling his remarks on monetary policy, delivered at Columbia University, with the need to end "loose" budget policies over the past 15 years, Carstens said: "This strong response must continue as necessary, for only by resolve, perseverance, and success in this task can trust in money be preserved."

Under conditions of rampant inflation and the highest levels of debt, both corporate and government, in history, Carstens is warning that the house of financial cards is faced with a collapse—the loss of "trust in money"—if the wages upsurge of the working class is not suppressed.

And as in all other major economies, where governments are increasing military spending and imposing austerity budgets, this imperative applies with no less force in Australia where the Labor government is ramping up defence funding to historically unprecedented levels. An austerity agenda to finance the military requires higher interest rates so fiscal and monetary policy work in unison.

And to ensure this takes place, the recommendation of the RBA review, adopted in full by Chalmers, was that the monetary policy body had to be more in tune with the needs of financial markets.

The review said the current structure of the board had not led to optimal measures in response to the pandemic, in particular citing the failure to lift rates fast enough when inflation began to rise.

"Current and former Reserve Bank board members themselves described the Reserve Bank board's role in various ways, ranging from providing real-time feedback on the economy, to an informed second opinion, to a 'pub test' of how decisions might be understood by the public," it said.

Its recommendation was for a more sharply honed and focused instrument, more in tune with financial markets, to carry out monetary policy.

"For example, during the pandemic, people with a deeper understanding of the financial system may have been better placed to offer alternative views on the design of the complex monetary policy tools proposed," it said.

As part of its ultra-low interest rate regime when the pandemic struck, the RBA undertook quantitative easing, buying up government debt. It initiated so-called yield curve control (YCC) in which the bank sought to maintain the yield on a three-year bond in line with its base interest rate. This was aimed at providing an indication to the market that low interest rates would prevail for the next three years.

But the YCC policy collapsed in November 2021 when it became clear the market did not believe it, and was ended without any discussion on the RBA board.

The central bank also bought $280 billion worth of long-term state and federal government bonds on which it has made a paper loss, calculated to be between $35 billion and $58 billion, because of the rise in interest rates.

Closer connection with financial markets and their demands as expressed in the market will not be the only criterion in determining the composition of the new monetary policy board.

Immediately after releasing the report on the RBA, Chalmers announced the appointment of two new members, company director Elana Rubin and former union official and Fair Work Commission president Iain Ross, to replace two retirees.

The appointment of Ross, who is being widely tipped to go on to the new monetary policy making body, is particularly significant. If he, or some other former union official, possibly more than one, goes onto the new body it will be presented as giving a "voice" for workers in determining policy.

The real aim, however, will be to use the experience of Ross and others of his ilk, in the active suppression of the working class, a key factor in RBA policy.

Lowe has pointed this out, noting, on several occasions, the reason wage rises in Australia have been kept at such low levels, even below the sub-inflation rates in comparable countries, is due to the rigidity of its industrial relations system.

While Chalmers was at pains not to attack the governor directly, the review said the composition of the board did not have participants with sufficient expertise to challenge and probe the positions advanced by him and RBA staff.

Lowe welcomed the review and its findings, however he said the criticism that the current board members lacked the expertise to set interest rates did not "particularly resonate" with him.

"The review panel did not sit in the board room," he said.

The nine members of the board, comprising business executives, were "probing, they challenge me, and sometimes I speak last in the meeting.

"So the idea that the board members sit there meekly, and accept the recommendation that I put to them is very far from the reality that I've lived as the governor."

He could also have added that the policies of the RBA of pumping money into the financial system and maintaining that inflation was "transitory" to continue it, was in line with the position of the US Federal Reserve and other major central banks.

But none of this is likely to save his job. When the gods get angry, they demand sacrifices. It is all but certain Lowe will not be reappointed after his present term expires in September and Chalmers announces a new governor towards the middle of the year.

Besides the dissatisfaction in ruling circles, there is too much popular hostility to Lowe and so a fresh face is needed to promote illusions that a new start is being made as the real agenda of deepening the attacks on the working class is carried out.