Australian central bank hikes rates again to increase “pain” on workers

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Fully backed by the Labor government, the Reserve Bank of Australia (RBA) board yesterday resumed aggressively raising interest rates. It is deliberately inflicting more suffering on working-class households in order to further cut real wages and consumer spending.

In announcing its decision to raise its cash rate from 3.6 percent to 3.85 percent, the RBA explicitly targeted wages—which have already been cut 4.5 percent in real terms over the past year. It said this level of “wages growth” was consistent with the bank’s inflation target, but it would continue to “pay close attention” to labour costs.

Real wages had fallen, RBA governor Philip Lowe told an RBA Board Dinner brimming with business leaders in Perth last night, but if inflation continued “workers will seek larger pay rises.” He said the “labour market” was “still very tight.” Therefore, the RBA was determined to pursue its course, “even if it is difficult for some people in the short term.”

The bank is intent on suppressing household spending enough to increase the official unemployment rate, now around 3.5 percent, in order to make joblessness a battering ram against workers’ wages struggles. By some estimates, that means throwing some 150,000 workers out of jobs, intensifying the hardship produced by the rate rises.

This is now an unmistakeable class war offensive by the corporate ruling elite under conditions in which working class incomes and living standards already have been cut by the greatest amount since World War II.

Labor’s Treasurer Jim Chalmers immediately seized upon the decision to again insist that the RBA’s supposed quest to reduce inflation must override calls for increased welfare spending and cost-of-living relief in the government’s May 18 budget.

Despite a cynical façade of empathy for people “who are already under the pump,” Chalmers warned of an austerity budget and dismissed demands for an increase in the sub-poverty levels of unemployment payments. Chalmers claimed the rate hike—the 11th since last May—was a “pretty brutal reminder” of the “difficult” economic conditions framing Labor’s budget, ruling out social spending increases.

Most immediately, the latest rate hike will add about another $100 to monthly mortgage payments for borrowers with average $600,000 mortgages on their homes. That takes the total increase in their monthly payments to around $1,200 a month—the equivalent of a pay cut of $300 a week, or $14,250 a year.

For a household with a $750,000 home loan, those figures are now $1,587 a month and over $19,000 a year. These are massive blows to working-class households, imposing severe financial stress and threatening many with the loss of their homes.

By the RBA’s own calculations, in last month’s Financial Stability Review, 17 percent of borrowers will experience “negative spare cash flows” by December 2023 if unemployment rises.

That is, even before yesterday’s hike, the RBA expected about a million households to be unable to make ends meet. Nearly half of low-income borrowers (the poorest 20 percent) were already in what the bank classified as mortgage stress—paying more than 30 percent of their income on repayments.

Renters—who make up more than a third of the population, and that is growing fast—are being devastated too. Landlords are passing on the higher interest rates and exploiting an increasingly tight rental market, adding to a rising toll of homelessness. CoreLogic’s national dwelling rental index recorded an increase of 10.1 percent over the year to April, with a record rise of 11.7 percent for the capital cities.

None of this is an accident, nor simply the product of the RBA or its governor Lowe, as portrayed by the corporate media. It is a conscious policy, being pursued by central banks and capitalist governments internationally to make the working class pay for the deepening economic crisis and the pouring of trillions of dollars into military spending.

The RBA's rate hikes have nothing whatsoever to do with combatting inflation, the causes of which do not lie in workers' falling real wages. Inflation is being stoked globally by corporate profit-gouging—as shown by record profits for commodity, energy and food corporations—on top of the impacts of the ongoing COVID-19 pandemic and the US-NATO war against Russia.

The banks and governments, acting on the dictates of the financial markets, are intentionally imposing the burden on workers and youth, as the wealthy benefit from higher interest rates, as well as booming profits and tax cuts. "While some households have substantial savings buffers, others are experiencing a painful squeeze on their finances," Lowe said in his statement following yesterday's decision.

Lowe warned that the bank remained "resolute"—despite widespread anger over the rate hikes—and further rises could follow because, even with the latest rise, the official inflation rate of 7 percent would not return to the top of the bank's 2-3 percent target band until 2025.

That means at least two years of wage and income cutting, with the Albanese government and the trade union bureaucrats continuing to seek to impose annual wage "rises" of less than 3.5 percent. In fact, Lowe declared that low rates of "labour productivity" meant that even that level of wage-cutting was inadequate.

Despite the latest hike reportedly coming as a shock to market economists after a one-month pause by the RBA last month, the financial press gave it a tick of approval. Today's editorial in the *Australian Financial Review* stated: "He [Lowe] reinforced the theme of *The Australia Financial Review*'s 'Alpha Live' event last week that inflation risked becoming sticky."

The editorial also praised Chalmers for "rightly taking his cue" from the bank's decision, "batting away calls for big welfare increases for the unemployed and single parents in next week's budget."

Soaring profits from iron ore, gas, coal and other commodity exports are reportedly likely to produce a budget surplus this financial year for the first time in more than a decade, but the Labor government is all the more intent on enforcing the dictates of big business and the money markets.

An *Australian* editorial, while praising Chalmer's response, demanded deeper attacks on social spending and bigger income tax cuts for the wealthy beyond the Labor government's pledge to implement "stage three" tax cuts next year, at the cost of almost $250 billion over a decade.

The Murdoch media flagship specifically called for "tough decisions" on work-for-the-dole, the National Disability Insurance Scheme and aged care, to pay for the $368 billion to be allocated for the AUKUS nuclear-powered submarines for use against China. It also praised big retail employers such as Coles, Woolworths, Kmart, Harvey Norman and Amazon for revising down, from 3.8 percent to 3.5 percent, their earlier call for this year's annual increase in the poverty-level minimum-wage.

This is far below even the official 7 percent inflation rate, as measured by the Consumer Price Index, for the year to March. That figure, moreover, hides the steeper rise for essential items such as medical services (up 4.2 percent in the past three months), tertiary education (9.7 percent) and gas and other household fuels (14.3 per cent).

Corporate economists and banks now predict that the interest rate hikes could trigger a recession, at least for consumers. The NAB bank and the AMP investment fund both increased their probabilities of a recession in Australia from 40 percent to 45 percent. AMP said a "consumer recession" is now "inevitable," even if the country's gross domestic product does not fall for two quarters in a row—the technical definition of recession.

The RBA itself reduced its economic growth forecast for 2023, from 1.5 percent to 1.25 per cent, and noted: "There are also uncertainties regarding the global economy, which is expected to grow at a below-average rate over the next couple of years."

While endlessly feigning concern over the "pain" being felt at "kitchen tables" around the country, the Labor government is preparing a budget that will demand even greater sacrifices from the working class, even if that results in a socially-destructive recession.