

Reserve Bank of Australia deepens attack on working class

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As was widely expected, the Reserve Bank of Australia (RBA) increased its base interest rate by 0.25 percentage points yesterday. This is another blow to working-class home buyers who have seen their disposable income cut by hundreds of dollars a week since the rate rises began in May last year.

The rate hike was pretty much a foregone conclusion after inflation figures for the third quarter were released last month. They showed an increase in prices from 0.8 percent to 1.2 percent for the three months, taking the annual inflation rate to 5.4 percent.

The decision though was as much about politics as it was about any supposed economic reasons. The incoming RBA governor Michele Bullock sought to establish her authority, issuing hardline statements on the need to bring inflation down.

She declared “low tolerance” for allowing inflation to rise above the level that the RBA has identified as its target. That is to bring inflation down to the 2 percent to 3 percent range by 2025. Bullock said that the bank board “will not hesitate to raise the cash rate further if there is material upwards revision to the outlook for inflation.”

Had rates not been raised yesterday Bullock knew that after having made such statements, she would have come in for a hammering from the financial press for not enforcing what it regards as the necessary monetary policy.

As a comment by economics professor Richard Holden in the *Australian Financial Review* put it, it was not only the right thing to do, but the only thing to do.

“Inflation isn’t coming down nearly fast enough, rates were and still are too low, and the credibility of Michele Bullock’s governorship was on the line,” Holden wrote.

In her statement on the move, Bullock said inflation

in Australia had “passed its peak but is still too high and is proving more persistent than expected a few months ago.” Goods prices had eased further but “the prices of many services are continuing to rise.”

The reference to services is significant because the RBA, like its counterparts internationally, particularly the US Federal Reserve, regards wage rises in this area as the key determinant of inflation and wants to ensure they are suppressed.

Bullock said that since its August meeting the RBA had received updated inflation on inflation and the labour market which suggested that the risk of inflation remaining higher for longer had increased.

She acknowledged that the economy was “experiencing a period of below trend growth,” but then made clear the bank wants to see it fall further. Bullock said growth has been “stronger than expected over the first half of the year.”

The growth rate was just 2.1 percent for the first six months of the year, down from 2.7 percent at the end of 2022. Growth per head of population, per capita GDP, declined by 0.3 percent in both quarters.

This means that while growth remains positive, the economy is in what is known as a per capita recession.

And the RBA decision is aimed at continuing this trend. Bullock said the economy was forecast to continue to grow below trend. She said that “employment is expected to grow slower than the labour force and the unemployment rate is expected to rise gradually to around 4.25 percent.”

Back in June, when she was RBA deputy governor and flagging her suitability for the top job, to which she was subsequently appointed by Labor government Treasurer Jim Chalmers, Bullock told an employers’ function that a 3.6 percent jobless rate was too low. It would “have to rise” to 4.5 percent to bring inflation

down.

Even though this estimate has been revised down slightly, it still means that well over 100,000 jobs will be lost.

While it is fully behind the RBA policy, which has nothing to do with bringing down inflation but is directed at suppressing wages, the Labor government has tried to manoeuvre in order to appear to distance itself from the decision.

In the lead up to the announcement, Chalmers said the latest price numbers were not a “material” shift upwards in inflation, as if to give the impression the government was not in favour of a rate increase.

This word play has got nothing to do with defending the interest of workers. It is motivated by concerns that Labor’s very narrow electoral support—the government received just over one in three votes in the May 2022 election—is eroding even further. The government’s claim that easing cost of living pressures is at the top of its agenda is increasingly exposed.

It has never been publicly acknowledged by any Labor spokesperson but cost of living pressures and the growing hostility to the government was a central factor in the massive defeat of its Voice referendum.

And that hostility has only increased because of the Albanese government’s full-throated support for the Israeli government’s genocide of the Palestinian people in Gaza.

Moreover, it is becoming increasingly clear that the so-called fight against inflation has nothing to do with the real cause of price hikes. The actual driver of inflation has been identified by the United Nations and aid organisations such as Oxfam as the price gouging by major corporations and commodity traders in international markets, but this is explicitly denied by the RBA.

The RBA interest rate policy is aimed solely at the working class. Its content is to slow the economy and increase unemployment while pouring billions of dollars into the coffers of the banks via increased mortgage payments.

Facts and figures speak louder than all the doublespeak and obfuscation by the RBA and the Labor government about their concerns for the economic well-being of the population.

Since the rate rises began in May 2022—yesterday’s decision is the 13th hike—a family with a mortgage of

\$750,000, by no means at the top of the scale, is spending \$1815 more on repayments a month. That is the equivalent of a wage cut of over \$450 per week or around \$22,000 a year. These figures signify increases of more than 50 percent in mortgage payments over the past 18 months.

A family with a mortgage of \$500,000 has lost \$1210 per month, while a family with a mortgage of \$1 million—by no means an uncommon occurrence, especially in Sydney and Melbourne—is worse off by \$2421 every month.

More is to come because, as Bullock said at the conclusion of her statement, the RBA remains “resolute in its determination to return inflation to target and will do what is necessary to achieve that outcome.”



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