Reserve Bank of Australia: No letup in attack on living standards

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Backed by the Labor government, the Reserve Bank of Australia (RBA) will deepen its assault on the living standards, particularly directed against working-class households, even as it acknowledges that major cuts in disposable income have already taken place.

In its quarterly economic outlook published on Friday, the RBA revised upward its forecast for inflation, currently at 5.4 percent, predicting that it will still be 4.5 percent at the end of 2023 and 3.5 percent at the end of 2024. That is well above the central bank's target rate of 2–3 percent.

This means that, in the name of fighting inflation, it is a near certainty the RBA will again raise interest rates, which have been lifted 13 times since May last year—the latest increase being last week—further reducing real incomes.

In a move that has been repeated over and over in recent years, the RBA revised down its forecast for when wages growth would exceed inflation from the end of this year, saying it now expected that to happen next June. But if the RBA's record is a guide, that forecast could well be pushed further out.

The RBA, like its counterparts around the world, targets inflation in its official statements, declaring it must be brought down because of the harm it does to the economy and the living standards of the population.

But the real target is workers' wages, once again underlined in the quarterly report. It said while goods price inflation had continued to fall, the price of many services was rising. This identification is crucial because the RBA considers that the main factor in the rise of service costs is wages.

The quarterly review said the labour market was not as "tight" as it had been and there had been a "moderation" of wages growth in some jobs and industries. But "liaison" with firms—the RBA's regular consultation with business organisation—showed "growth in the cost of labour is very high and is adding to firms' overall cost pressures."

The central objective of RBA policy, now spearheaded by Labor's recently-appointed bank governor Michele Bullock, is to reduce these costs by slowing the economy, increasing the unemployment by about a percentage point to around 4.25 percent over the next year.

The RBA identified a number of risks on the inflation front, including the war in the Middle East and another El Nino weather event leading to very dry or even drought conditions.

It warned that if upside risks were to materialise this would add to inflationary expectations, especially if productivity growth (that is increased output per worker) remained subdued.

"This would require a prolonged period of below-trend growth, and lower employment, to reverse it," the RBA said.

In other words, in response to what the *Sydney Morning Herald* characterised as possible "economic fire fronts," the RBA would act to make the situation worse by lifting interest rates.

While this is undoubtedly perverse, it does have an underlying class logic. The response of all the economic institutions of the capitalist state, in which the RBA is front and central, is to make the working class pay for the deepening problems of the private profit system.

And the working class already has been hit, as the RBA made clear.

"Real household disposable income has been declining since mid-2002 and was 3 percent lower than a year ago in the June quarter," it said. "High inflation, strong growth in tax payments and higher net interest payments have more than offset robust growth in labour incomes."

The use of the term "robust" signifies that the RBA considers that even the sub-inflation pay rises that workers have received, imposed by deals struck by trade union bureaucrats with employers, are too high.

As a result of the RBA's interest rate hikes since May 2022, the annual mortgage repayment on an average $750,000 loan has increased by around $22,000, a more than 50 percent increase. That is a cut in disposable income of around $400 per week.

Many more households are going to suffer this deliberate squeeze in coming months as their fixed-interest loans expire, having been taken out when rates were much lower.

The RBA's own calculations show how interest rate rises are hitting lower-paid working-class families.

The central bank said that between 13 and 18 percent of the bottom 25 percent of income earners (the lowest quartile) with mortgages are experiencing "negative cash flows." That is, their living expenses exceed their income. In the next lowest quartile, negative cash flow is being experienced by as much as 16 percent.

The sharp decline in living standards over the past 18 months has a profound political significance as it coincides with the period since the Albanese Labor government took office. As the WSWS has noted, Labor is presiding over the biggest decline in living standards in the post-World War II war period, exposing its broken promises about cost-of-living relief at the forefront of its agenda.

A poll published by the Nine Media newspapers today showed that only 8 percent thought the economy would improve over the next three months and 50 percent thought it would worsen. Some 60 percent did not think their incomes had kept up with inflation and 64 percent thought inflation would get worse.

Primary voting support for Labor had plunged to 35 percent in the first week of November, from 42 percent in May. Support for the Liberal-National Coalition also fell, pointing to deepening disaffection with the political establishment as a whole.

This discontent played a major role in the defeat of last month's indigenous Voice referendum, which was another central plank of the Labor government. The rejection in working-class areas of the referendum to establish a new parliamentary institution was not a massive swing to racialism as claimed by the Voice promoters.

Based on data from the Organisation for Economic Cooperation and Development (OECD), the *Australian Financial Review* reported last week that Australian households had suffered the biggest fall in living standards of any advanced economy over the past year.

"Inflation-adjusted disposable incomes have hit their lowest levels since June 2019 as high inflation, a rapid increase in mortgage repayments and rising income taxes ravage household budgets, newly released date from the OECD show," it said.

According to the analysis, Australian household incomes slumped by 5.1 percent in the 12 months to June.

The OCED data also point to the critical role of the trade union apparatuses that are working in tandem with Labor governments at the federal, state and territory levels to suppress wage struggles. It found that wages in Australia were growing at a slower rate than other advanced economies, including the UK, Canada, the euro area and the US.