RBA hikes interest rates amid clamour from Australian ruling elite for deeper austerity

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The Reserve Bank of Australia (RBA) increased the official interest rate by 25 basis points yesterday, taking it to 4.85 percent, the highest level since 2008.

The rate hike is one component of a multi-pronged offensive against the working class. Workers are already bearing the brunt of persistent inflation through soaring prices, especially for basic necessities. That same inflation is being invoked to justify interest rate increases that drive up mortgage repayments and deliberately suppress economic activity and employment.

At the same time, the corporate and financial elite is seizing on the economic crisis to demand sweeping cuts to social spending by the federal Labor government, which is already imposing major austerity measures.

The most immediate consequence of the rate rise will be to add around $90 a month to repayments on a $600,000 mortgage. That brings the cumulative increase from five rate rises this year to approximately $5,500 annually. Compared with the ultra-low rates prevailing before the tightening of monetary policy began in 2022, annual repayments on such a mortgage are now around $19,000 higher.

According to research firm Roy Morgan, 1.75 million Australian mortgage holders, almost one in three, were at risk of mortgage stress in September, an increase of more than half a million since January. This means their mortgage repayments had reached levels considered financially burdensome relative to household income. Of them, 1.26 million were classified as "extremely at risk."

RBA governor Michele Bullock made clear that further hardship was in store. "Some pain now will prevent even worse pain down the track," she declared in defending the rate rise at the press conference after it was announced.

The RBA sharply revised upwards its inflation forecasts, predicting that headline inflation will reach 4.5 percent by December, compared with its previous forecast of 3.6 percent. Inflation is now expected to remain above the central bank's 2–3 percent target range until late next year.

For workers, this means further price increases on top of the enormous rises in the cost of living over the past five years. Food, housing, electricity and other necessities already consume a growing proportion of household incomes. Electricity prices alone rose 24.6 percent in the year to August, partly reflecting the withdrawal of government rebates. Even when inflation temporarily subsided, prices did not return to their previous levels.

The RBA itself pointed to the central role of war in the renewed inflationary surge, stating that "materially higher global energy prices as a result of the Middle East conflict have added to inflationary pressures."

The criminal US-Israeli war against Iran, backed and aided by the Albanese Labor government, has already devastated the country and destabilised the global economy. Washington is now preparing to resume its bombardment, potentially as early as this week, with plans reportedly including attacks on civilian infrastructure that threaten a catastrophic escalation throughout the region.

Higher interest rates cannot reverse these war-driven shocks to the world economy. Instead, the RBA is seeking to suppress domestic economic activity and employment.

The class character of this policy was underscored by Bullock's response to questions last week about unemployment, which has risen from 4.1 percent at the beginning of the year to 4.7 percent in September.

"We're not worried about the pace of increase in the unemployment rate at this stage," she declared.

The RBA now forecasts unemployment reaching 5.1 percent by late 2028, while annual economic growth slows to just 1.3 percent by the end of 2027.

Although the RBA does not forecast a recession, Bullock acknowledged that the conditions confronting millions of people would resemble one.

"Our central forecasts do not see us going into recession, but it does see growth slowing quite markedly," she said. "It is going to make people feel like it's a recession because they feel poorer."

Higher unemployment is not simply an unintended consequence of the RBA's policies. It is a central mechanism for suppressing wages, by increasing job insecurity and weakening the ability of workers to fight for pay rises. This comes after years of falling real wages. As of June, wages were still 1.4 percent below their level four years earlier, after accounting for inflation.

But the financial and corporate establishment is demanding a

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far wider offensive. Across the corporate media, business circles and parliamentary opposition, the campaign for sweeping cuts has grown to a fever pitch. Increasingly, Labor's ability to deliver major austerity measures is being presented as the decisive political test on which its fate hangs.

Yesterday, the *Australian Financial Review* editorialised: "Chalmers must cut spending to solve inflation problem," warning that without substantial cuts in December's mid-year budget update, the RBA could raise rates again. The *Australian* has issued similar demands, while the Coalition denounces Labor's supposed "spending addiction." Economists have floated annual cuts of $7 billion to $10 billion as an alternative to another interest rate rise.

The central claim—that excessive government spending is responsible for the inflationary crisis—is contradicted by the evidence.

As economist Greg Jericho noted in Deepcut News this week, Australia has relatively low levels of taxation and public spending compared with other developed economies, reflecting a tax system that favours big business and the wealthy.

According to Jericho, government revenue would be $100 billion higher annually if Australia collected the OECD average proportion of national income. Yet while the vast profits and accumulated wealth of major corporations and the super-rich, including the gas giants, are protected, the corporate and political establishment insists that essential public services must be slashed.

Moreover, the RBA's own assessment shows that public demand has weakened while private demand has accelerated. It forecasts business investment growing by 12 percent this year, compared with just 2.1 percent for public demand.

A significant component of this investment is concentrated in the construction of artificial intelligence data centres, which as Jericho also noted, generate relatively few permanent jobs and are bound up with the speculative AI boom fuelling the stock market bubble. The RBA itself has identified this investment as placing pressure on the economy's productive capacity. Yet the demands for restraint are directed against public spending.

Far from being a technical problem caused by excessive spending on public services, the renewed inflationary surge is bound up with a deepening crisis of the capitalist economy, marked by war-driven price shocks, slowing growth and growing financial instability. The response of the ruling elite is to protect corporate profits and wealth through an intensified assault on workers' social conditions.

Labor has already made clear its readiness to proceed. Treasurer Jim Chalmers has promised further cuts in December, declaring yesterday that the government would play a "helpful role" in combating inflation. Finance Minister Katy Gallagher has warned of "difficult decisions" across government departments.

This follows the government's announcement in May of approximately $63.8 billion in projected cuts over four years. That includes a $38 billion cut to the National Disability Insurance Scheme; the largest targeting a single government program in Australian history. Hundreds of thousands of vulnerable disabled people are being removed from any support, in a brutal attack that will destroy lives.

Meanwhile, Labor has increased annual military spending to record levels of around $60 billion, with hundreds of billions more earmarked for AUKUS and other measures aimed at completing Australia's transformation into a launching pad for a US-led war against China.

The same agenda is being advanced in the November 28 Victorian election. Amid a state debt projected to approach $200 billion by 2030, more than 100 business and other prominent figures signed an open letter last week demanding that all parties commit to debt reduction.

The state Labor government has already announced more than $4 billion in cuts and public-sector job losses, while the Liberal-National Coalition proposes a decade-long hiring freeze to slash another $22 billion. One Nation, while seeking to exploit mounting social discontent, likewise advocates swinging cuts to public spending, including through the abolition of major infrastructure projects and reductions in government administration.

The mounting crisis of the political establishment, evident in the Victorian election and federally, is being driven by mass hostility to the relentless assault on workers' jobs, wages and social conditions. Labor and the other major parties are pursuing the same essential agenda of austerity and militarism being implemented by capitalist governments internationally, amid a deepening global economic crisis.

This hostility will increasingly find expression in major struggles of the working class, as is already emerging in France and across Europe. Such struggles can only be taken forward through an independent socialist perspective directed against the capitalist system itself, the source of the economic crisis, social inequality and war.

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