Australian central bank expands quantitative easing program

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There is a glaring contradiction at the centre of the decision by the Reserve Bank of Australia on Tuesday to step up its quantitative easing (QE) bond-buying program and to keep its base interest rate at virtually zero for at least the next three years.

On the one hand, according to RBA governor Philip Lowe, the outlook for the global economy has improved over recent months. In Australia, "the economic recovery is well under way and has been stronger than was earlier expected" with gross domestic product predicted to increase by 3.5 percent over both 2021 and 2022.

However, on the other hand, the RBA decided that it would expand its emergency bond buying program by $100 billion, to be carried out at the rate of $5 billion a week, and to keep its base interest rate at just 0.1 percent—far below what it was in the aftermath of the financial crisis of 2008–2009.

The move was at variance with market predictions. "The market appeared to have been preparing for a taper signal," Alvin T. Tan, a strategist at RBC Capital Markets in Hong Kong told Bloomberg. "So the additional QE is definitely against those expectations," he said, adding that the "message was also more dovish."

While pointing to a strong recovery, the RBA said wage and price pressures remained subdued. The consumer price index rose by only 0.9 percent in the year to December. Wages were increasing "at the slowest rate on record" and any rise in the future would be only gradual.

What this means in effect is that any increase in the output of the Australian economy will be virtually entirely appropriated in the form of profit, further contributing to the long-term decline of wages as a proportion of national income.

Lowe said the RBA remained committed to maintaining "highly supportive monetary conditions" until its goals were achieved and, given the current outlook for inflation and jobs, "this is still some way off."

"The Board will not increase the cash rate until actual inflation is sustainably within the 2 to 3 percent target range. For this to occur, wages growth will have to be materially higher than it is currently. This will require significant gains in employment and a return to a tight labour market. The Board does not expect these conditions to be met until 2024 at the earliest."

There was another notable feature of the RBA decision: an explicit reference to the exchange rate of the Australian dollar in international currency markets. The major economic powers have all committed themselves not to use monetary policy to lower the value of their currencies lest this set off a destructive currency war. But the commitment is increasingly being honoured in the breach.

Since its fall to US55 cents in the financial markets freeze last March, the Australian dollar has surged by 33 percent against the US currency.

This is largely the result of an overall fall in the US dollar due to the massive increases in US debt and the stimulus measures of the US Federal Reserve. It has expanded its balance sheet by around $4 trillion in the past 10 months and is purchasing $120 billion worth of financial assets every month—a rate of $1.4 trillion per year.

Lowe noted that the exchange rate for the Australian dollar had appreciated significantly. It was in the upper end of the range for recent years and the RBA's latest measures would contribute "to a lower exchange rate than otherwise."

Commenting on the currency implications of the

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latest decision, Bloomberg noted: "Lowe's QE announcement reflects Australia's small stature in the global monetary marketplace, requiring it to remain in the slipstream of major central banks. If the RBA were to step outside that line, it would risk sending the currency soaring and damage exports and jobs."

A key aim of the current QE program, which has seen the RBA expand its balance sheet by around $160 billion since the start of 2020, is "to restrain the currency," it said.

The QE program is set to continue. According to Westpac chief economist Bill Evans, the RBA will spend at least another $100 billion in two separate tranches later this year and in 2022. The chief economist at the financial firm EY, Jo Masters, told the *Sydney Morning Herald* the RBA was on track to expand its balance sheet to around 30 percent of GDP.

The RBA announcement came the day after Prime Minister Scott Morrison delivered an address to the National Press Club in which he made clear his Liberal-National Coalition government would press ahead with measures to slash unemployment benefits and other critical social spending.

He said the government would exercise "fiscal discipline"—code for attacks on the social position of the working class. After providing billions to support corporations under COVID-19 economic support measures, Morrison said the government was not running a "blank-cheque budget."

Taken together, the two announcements reveal the essential class agenda being pursued at the highest levels of economic policy making. Both the government and the RBA promote the fiction their decisions are made in the interests of the "economy" and the "nation." However, their latest actions reveal the essential class divide.

The government's measures will push up unemployment, impose increased poverty on broader sections of the working class and youth, forcing them into lower paid jobs.

At the same time, the RBA uses these conditions as the justification for its decisions to pump still more money into the financial system for the benefit of major corporations and the financial elite.

Such measures—the maintenance of ultra-low interest rates for the indefinite future and bond purchases—do nothing to boost either employment or wages. But what the RBA acknowledges are "highly accommodative" financial conditions boost the bottom line of corporations and facilitate lucrative speculation in shares, real estate and other financial assets.

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