Australian central bank's "jumbo-sized" interest rate rise targets wage demands and home-buyers

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The Reserve Bank of Australia (RBA) yesterday lifted its base interest rate by what has been described as a "jumbo-sized" 0.5 percentage points. The biggest single hike in 22 years lifted the cash rate to 0.85 percent, compared to 0.1 percent until a month ago.

The decision, taken in the face of market predictions that the rise would be 0.25 percentage points or at most 0.4, is aimed at suppressing wage demands in response to rampant inflation. It also cuts the disposable income of millions of working-class households by hundreds of dollars a month through increased mortgage payments.

Announcing the decision, RBA governor Philip Lowe made it clear more rises are to come. He said the hike was a "step" in the withdrawal of monetary support provided during the COVID-19 pandemic and that the central bank "expects to take further steps in the process of normalising monetary conditions over the months ahead."

It has been estimated that if the bank increases its base rate to 2.5 percent by the end of the year, home buyers, already battling with the escalation of house prices, particularly over the past two years, on average will have to find an extra $1,000 a month on mortgage repayments. That is equivalent to a $250 per week cut in their disposable income.

The ostensible reason for the rate hike is the need to bring down inflation, now running officially at 5.1 percent and expected to go even higher in coming months. But the real reason is the determination of the central bank to drive down wage claims by workers, who face the highest inflation in 40 years under conditions where real wages have been cut over the past decade.

Lowe said inflation was higher than expected. While much of the increase was due to global factors, such as COVID-related disruptions to global supply chains and the war in Ukraine, domestic factors, including a tight labour market, were "contributing to the upward pressure on prices."

Acknowledging one of the key sources driving the decision, Lowe said the RBA's "business liaison program continues to point to a lift in wages growth from the low levels of recent years as firms compete for staff in a tight labour market."

In fact, as a range of official statistics make clear, the standard of living for workers has fallen back to the level of 2011 because of stagnant or declining real wages. Lowe even noted this process himself, saying that "real household incomes are under pressure in many economies."

While the rate hike has been touted as necessary to bring down inflation, it will do nothing to untangle global supply chains and will not reduce the price of petrol, which has escalated the cost of running a car as well as transport costs. Nor will it bring down electricity prices, set to rise by at least 18 percent, or resolve the natural gas supply crisis.

After announcing the biggest single rate hike in more than two decades, the RBA decided not to hold a press conference on its decision, perhaps fearful that even the generally compliant mass media may raise some questions about the real reasons for the decision and the threat of recession it poses.

Yesterday's decision alone will add $133 a month on a loan worth $500,000 over 25 years and $265 per month on one worth $1 million. In New South Wales (NSW), where the average 25-year loan is $786,000, the increase in monthly payments will be $211.

And if the bank's base rate rises to 2.5 percent by the end of the year—and there are predictions it could be even higher—a borrower with a $500,000 loan would see monthly payments increase by $652.

Even these average figures do not reveal the full picture, especially in working-class areas.

Industry analyst Martin North, the principal of Digital Finance Analytics, told the Sydney-based *Daily Telegraph* yesterday that even a lift in the RBA's rate to just 2 percent, would increase the proportion of households in mortgage stress from 44 percent to almost 50 percent.

While there is no official definition of mortgage stress, it is

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generally considered to set in when mortgage payments reach 30 percent of household income and there are problems in paying other bills.

North said more than four million households out of nearly 10 million “are already close to the edge—that’s an unprecedented situation.”

If the RBA added another 2 percent to its base rate, a further 400,000 to 500,000 would probably fall into the stress category, taking the total to nearly half of all households with a mortgage.

In some areas, particularly outer working-class suburbs, where first home-buyers predominate, the figure is even higher. According to North, in the outer southwestern Sydney suburb of Campbelltown over 10,000 households are in stress, that is, five in every six.

NSW, which has the highest house prices in the country—in Sydney the median price is now well over $1 million—has the largest number in stress, 459,000. But according to North, in percentage terms it is more common in Tasmania, Victoria and South Australia.

The class dynamic driving the rate rise and its implications for the recently-installed Labor government were set out by economics commentator Robert Gottliebsen in the Murdoch-owned *Australian*.

He said that yesterday was “one of the most important days in Australia’s recent history.” It sent a clear message to the two-week-old Albanese Labor government that it needed to “review” the policies it had sold to the electorate.

The government had to recognise that the Australian economy was over-stimulated, inflation was ballooning out of control and it “needed to be reined in by two or three sharp interest rate blows to contract the economy.”

The central bank, he continued, was saying that if unions tried to “transpose whatever Fair Work awards for low paid workers to the total community then that will be met with much higher interest rates and a recession.”

An *Australian Financial Review* editorial underscored that message today. It said that if politicians were honest then the public would “better understand” that the real message of the Albanese government’s submission to the Fair Work Commission that low-paid workers should not go backward was that “the bulk of the workforce will likely take a real wage cut.”

Australians, it added, had to understand that mortgage interest rates had to rise from their record lows, inflation would be above nominal wages and “Labor needs to make a start on serious budget repair”—that is, cuts to vital areas of social spending.

The RBA decision is part of a global offensive by the world’s central banks, acting as the spearhead for the demands of finance capital, for a coordinated drive to crush workers’ wage demands in the face of the highest global inflation in four decades.

It is being led by the US Federal Reserve which lifted rates by 0.5 percentage points at its last meeting with at least two, or possibly three, such rises in the pipeline. Fed officials, from chair Jerome Powell down, have made it clear their target is the “tight labour market” and the RBA has joined this class war.

The inflationary spiral has been set in motion by the policies of the central banks over the past 14 years. Their response to the global financial crisis of 2008 and the market meltdown of March 2020 at the start of the pandemic was to pump trillions of dollars into the financial system to prevent a collapse of the stock markets. One of the consequences was an escalation in housing prices.

These measures, coupled with the refusal of capitalist governments around the world to take the necessary public health measures to eliminate the pandemic, and now the US and NATO-led war in Ukraine, have created the supply chain crisis which has resulted in a global inflationary surge.

The working class in Australia and internationally must develop its own counter-offensive. The immediate demand is for wage rises to compensate for past real wage losses, together with automatic adjustments to meet cost of living increases.

This demand needs to be connected to a broader political movement—the fight for workers’ governments and a socialist program aimed at the reorganisation of society to meet human need and end the dictates of finance capital and profit.

These issues will be at the centre of the discussion at the Socialist Equality Party’s online public meeting this Sunday, June 12 at 2 p.m. (AEST) to review the election outcome and the explosive class battles ahead.

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