

Former Australian PM Paul Keating lashes central bank

By Nick Beams
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In another indication of growing nervousness about the state of the Australian economy and the social struggles that could erupt amid the biggest downturn since the Great Depression, former Labor Prime Minister and Treasurer Paul Keating has hit out at the Reserve Bank of Australia (RBA).

Keating's attack was set out in a comment piece submitted to major news outlets this week. It followed the launching of an advertising campaign by 40 "prominent Australians" opposing the government's plan to bring forward tax cuts that will significantly benefit the wealthiest 5 percent of the population.

The "prominent Australians" fear that such a measure will further fuel social anger, while Keating's concern is the explosive social and political consequences of rising unemployment resulting from the deepening crisis of the capitalist economy.

The immediate trigger for Keating's comment was a speech by RBA deputy governor Guy Debelle on Tuesday in which Debelle foreshadowed a cut by the central bank in its base interest rate from 0.25 percent to 0.1 percent on the eve of the October 6 federal budget by Treasurer Josh Frydenberg.

Keating said Debelle had "strolled out with debating points about what further RBA actions might be contemplated. As history has shown, when a real crisis is upon us, the RBA is invariably too late to the party. And so it is again."

Keating noted that the Reserve Bank Act had two objectives—price stability and full employment. At present, he said, there was no serious impetus to inflation and "one would need a microscope to find it" but "we do need to worry about full employment."

"In other words, the bank should be explicitly supporting the government so the country does not experience a massive fall in employment—impacting

particularly on younger workers—those who have already been obliged to wipe out their superannuation savings in order to support themselves."

Keating said that the RBA should shoulder the load "and in a super-low inflationary world that load is funding fiscal policy. Mountainous sums of it."

Instead of funding government outlays by "buying appropriate levels of government debt and locking it away on its balance sheet, thereby making the government's funding task much easier and support for the country better, the deputy governor conducts a guessing competition in what incremental step the Bank might take to help."

Keating denounced the RBA as "high priests of the incremental," not daring to put a toe across the line of what was considered central bank orthodoxy. He raised the perspective of the RBA directly buying government bonds from the Treasury.

The RBA had shown some "unlikely form" earlier this year when it announced it was pursuing a yield of 0.25 percent for three-year Treasury bonds—a target to be achieved by purchasing them—but had failed to follow up with further innovations.

The direct purchase of government debt in the "mountainous" quantities called for by Keating was ruled out by RBA governor Philip Lowe in July.

Lowe said: "I want to make it very clear that monetary financing of fiscal policy is not an option under consideration in Australia, nor does it need to be. The Australian government is able to finance itself in the bond market, and it can do so on very favourable terms."

Anxious to nip in the bud any questioning of government and central bank policy, lest it lead to a more critical examination and deeper probing of the real functioning of the capitalist economy, going far

beyond Keating's criticisms, Treasurer Frydenberg denounced the intervention.

"His was a very nasty, vindictive, unnecessary, misguided attack," Frydenberg said. "The RBA has done very well through this crisis. Unlike other crises, they didn't have room to move on monetary policy."

The depth of the economic crisis and fear of the social explosion it will produce, which underlie Keating's denunciations of the RBA, were evident in data released on Thursday. They showed that only 843,900 workers had a job in manufacturing industry in August, just 6.7 percent of all jobs in the country. This was a 50,000 decline since the COVID-19 pandemic began, even though manufacturing has been largely unaffected by lockdowns.

While he did not make a direct reference to it, Keating's prescriptions are largely based on so-called Modern Monetary Theory. MMT maintains that since central banks issue sovereign national currencies, governments need never run out of money to finance stimulus measures because central banks can always buy government debt in the manner advocated by Keating.

MMT has been taken up by a number of "left" and right-wing economists in the US and elsewhere, as well as, some media pundits, including Australian financial commentator Alan Kohler.

One of the most fundamental flaws in the MMT perspective is its national foundation. It is based on the claim that because central banks control the currencies, they can regulate national capitalist economies to restore jobs and growth via state intervention.

But if the measures proposed by Keating were adopted, the result would be a plunge in the value of the Australian dollar on international markets, possibly even greater than that which took place in 1987 when Keating was treasurer in the Hawke Labor government.

Keating said the dollar plunge at that time meant Australia was on the road to becoming a "banana republic." In collaboration with the trade union bureaucracy, he initiated a "reconstruction" program that led to the destruction of hundreds of thousands of jobs and an onslaught on workers' conditions. The outcome in the present capitalist breakdown would be even more severe.

It is not accidental that Keating has emerged as the advocate for sweeping new measures in the midst of

the most far-reaching crisis of the global capitalist economy since the Great Depression. Keating has a keen political sense of what it could bring.

Early in his political career, Keating was mentored by Jack Lang, the right-wing populist Labor Premier of New South Wales in the early 1930s. Lang railed against "money power" and the British banks and advocated the supposed "Lang Plan" as he sought to crush the development of a genuine socialist program.

Keating's denunciations follow in this tradition. They are aimed at promoting the reformist illusion that there is a solution to the present crisis within the profit system if only different monetary policies were adopted to block the advancement of a socialist program and the fight for it by the working class—the perspective to which Keating has been deeply hostile throughout his political career.

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