

“The pain of recovery”: Rudd’s declaration of war on the working class

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Australian Prime Minister Kevin Rudd’s latest essay “Pain on the road to recovery”, published in the *Sydney Morning Herald* on July 25, could be more accurately titled “A declaration of war against the working class”.

The essay was prepared after Rudd’s return from discussions at the G8 summit in Italy, and followed several months of criticism in the Murdoch media that the prime minister was abandoning his credentials as an “economic conservative”. That criticism was prompted by an earlier essay, published in the February edition of the *Monthly*, at the height of the global financial crisis, in which Rudd attacked the “free-market ideology” of “neo-liberalism”.

In a speech delivered in Berlin on July 7 on the necessity for an “exit strategy”, Rudd made clear he understood that the essential task confronting his, and other governments around the world, was to ensure that the massive cost of government bank bailouts and stimulus packages would be extracted from the working class through savage budget cuts.

The Murdoch press immediately signaled its approval with an editorial in the *Australian* on July 9 entitled “Welcome return of fiscal conservative” declaring that Rudd had “taken an international lead in constructive, rational economic policy discussion”.

The latest essay elaborates on the themes of the Berlin speech, but goes much further. The government’s economic strategy will not only “involve tough choices and require Australians to accept difficult and unpopular budget cuts” it will “bring with it one of the most significant changes in global and domestic economic policy settings Australians have experienced.”

While the essay contains references to “excessive greed”, “neo-liberal fundamentalism” and “corporate cowboys”—denunciations of this sort remain useful while the government is handing out tens of billions of dollars to prop up the major corporations and insure bank profits—it contains a significant shift in Rudd’s “explanation” of the crisis.

Back in February, when the task was “saving capitalism from itself”, the prime minister placed emphasis on the failings of “free market ideology” as the cause of the crisis. Now that his agenda has shifted to making the working class pay for the rescue operation, his rhetoric has moved to denunciations of “excess consumption”.

According to Rudd: “The roots of the crisis lie in the preceding decade of excess. In it the world enjoyed an extraordinary boom: living standards rose faster than at any time in recent memory; global economic growth reached a peak of 5.1 percent in 2007, the highest global growth rate in more than three decades.”

While Rudd fails to recognise it, this explanation constitutes a damning indictment of the capitalist system. In the years immediately preceding the crisis, world economic growth briefly returned to levels not seen since the end of the post-war boom. But, notwithstanding the enormous increases in productivity since that time—based on technological advances in computerization and communications—this economic growth proved to be

not only unsustainable, but the cause of the most severe financial and economic crisis since the Great Depression of the 1930s.

In the United States, Rudd writes, outlining his new explanation of the crisis, “consumers went on a long, debt-fuelled shopping spree” with household debt increasing from about 65 percent of income in 1983 to nearly 140 percent by 2007. Likewise, in Australia “consumers also spent up big” leading to a 340 percent increase in household debt from 1996 to 2007.

Rudd blames “excess consumption” for the crisis in order to advance his government’s agenda—reducing the consumption of millions of ordinary working class families while increasing the profits of the banks and major corporations.

In the US and Australia, as well as in other major capitalist countries such as Britain, household debt has massively increased. But to cite these increases as the **cause** of the global financial crisis is simply another case of “lies, damn lies and statistics”.

To blame the crisis on household debt is to put the cart before the horse. By far the largest proportion of the increase has resulted from spiraling mortgage debts incurred as a result of escalating house prices. But the rise in house prices was not caused by the demands of home-buyers. Housing has been one of the asset bubbles created continuously over the past two decades by the policies of the US Federal Reserve and other central banks to ensure the profitability of the banks and financial corporations. Home-buyers did not invent securitization of debt, collateralized debt obligations and the myriad derivative instruments used to create one financial bubble after another. These were the products of high-level “financial innovation” that resulted, among other things, in higher housing prices, forcing working class families to take on unprecedented levels of debt if they wanted to buy a home.

Another major cause of increased household debt has been the decline in real wages. Wage levels peaked in the US in 1973, thereafter falling for almost a quarter of a century. There was a small increase at the end of the 1990s but after the recession of 2001 median household income declined in real terms. Increased credit card debt and equity withdrawals from home mortgages were two of the so-called “coping mechanisms” employed by families to try to counter the wages fall.

The same processes have been at work in Australia. For 30 years after World War 2, real wages increased by 2-3 percent per annum. After 1975 these increases ceased, with the result that in 1995 it is estimated that real wages were 20-30 percent below where they would have been had the post-war rises continued. In the past three decades income has been redistributed away from wages to profits. In 2008 the profit share of total income was a record 27 percent, with wages at 53 percent. In 1992 the figures were 21 and 56 percent respectively. In 1975, at the peak of the post-war boom, the share of wages in national income was 62.4 percent.

In his essay, Rudd provides figures that indicate the scope of the various government bailouts. They also point to the dimensions of the assault now being prepared. Governments in the major capitalist countries have

implemented taxpayer-funded guarantees for the banks amounting to \$6.2 trillion, or 8 percent of global GDP. On top of this, they have allocated \$2 trillion to fund bank bailouts and recapitalizations. In addition, G20 governments are expected to spend a total of \$5 trillion on stimulus packages by the end of next year, equivalent to nearly 8 percent of global GDP. In all, the measures are equivalent to around 18 percent of global GDP.

The average budget deficit for OECD economies has increased more than sixfold from 1.4 percent of GDP before the crisis, to an expected 8.8 percent by the end of 2010. This means that in 2010, public sector debt will rise to more than 100 percent of GDP.

In its budget brought down last May, the Rudd Labor government forecast that public debt would rise to around \$315 billion in 2013-14 and committed itself to returning the budget to surplus by 2015-2016. In order to cut spending, it lifted the retirement age from 65 to 67, the first in what will be a series of socially regressive measures.

A key plank of Labor's budget was its commitment to keep the real increase in federal spending to 2 per cent of GDP for an indefinite period to come. Last week, the think tank, Access Economics, gave an indication of what this commitment signifies. "The 2 percent rule," it noted, "doesn't sound scary and hasn't lost any votes so far, yet it implies a straitjacket on federal spending in coming years. You may be surprised to know that, after four and a half years, the cumulative impact of the 2 percent rule will be devastating. It would, for example, be the equivalent cost savings from abolishing the Defence Department, or it would be the equivalent of the savings the government would make from lifting the wage pension not to 67 but to 107."

The Labor government's program not only involves savage budget cuts. Rudd's essay makes clear that it intends going much further, to restructure economic and social relations in the name of building "the foundations of sustainable growth".

According to Rudd, the crisis reveals that the limits of a "purely debt-fuelled growth strategy" have been reached and the world must now be "rebalanced" under conditions where "many Western economies simply consumed too much." Australia is clearly in the latter category. Growth can no longer be based on supplying coal and iron ore to Chinese industry, which, in turn, exports to the debt-ridden US market.

The new program for growth involves a "responsible agenda of future economic reform". Those words will have a familiar and ominous ring for the many workers who experienced the Hawke-Keating governments, because it was under this banner that the Labor governments of 1983-1996 reduced real wages and organized an on-going offensive against jobs and working conditions. Now, under conditions of the worst downturn since the Depression, these attacks will be deepened.

According to Rudd: "Australia will need to work smarter and harder to achieve better national growth in a weaker global environment. We need to implement a global competitiveness agenda for Australia that reinvigorates the drivers of productivity growth. Our mission must be a more globally competitive Australia capable of securing a greater slice of what may well be a more sluggish global economy."

The implications are clear. With every other government seeking to defend the profits and economic interests of its "own" corporations in the same way, workers are to be pitted against each other in a never-ending conflict, under conditions where the world economy is either stagnant or contracting.

Rudd goes on to emphasise that even as the Australian economy grows, the conditions of workers must worsen. "Australia's future prosperity," he insists, "will rely on our willingness to make tough decisions, **to tighten our belt as the economy recovers** [emphasis added] and to build our global competitiveness."

Insisting that the key to economic growth is higher productivity, the prime minister cites the economic impetus that resulted from the Hawke-

Keating measures. But the growth in output resulting from higher productivity during the Hawke-Keating years and subsequently did not raise living standards. Rather, as the historic decline in the wage share of national income reveals, it increased corporate and financial profits and deepened social inequality.

While "egalitarian Australia" has always been a myth, there was at least a limited movement towards greater social equality for most of the 20th century. After 1981, however, and the program of "structural reform", the trend was reversed. In the decade 1986-96, the average real income of the bottom 40 per cent of households fell by between \$13 and \$98 per week. By the end of the 1990s, the top 20 percent were earning nearly 50 percent of the total income—that is, nearly the same amount as the bottom 80 percent. Over the period 1986-96, the wealth of the top 200 families climbed from \$7.3 billion to \$37.3 billion. In 1992 the pay of an executive in a top 50 company was 27 times that of the average worker. By 2002 it had risen to 98 times.

Among the measures cited by Rudd as necessary to boost productivity is tax reform. His proposal encapsulates the class character of his entire agenda.

Rudd writes: "We need to ensure our tax system remains internationally competitive. As a capital importing country, we need to be mindful of the impact domestic tax laws have on global investment decisions and our ability to attract investment and international business. This is a key focus of the tax review, which aims to report at the end of the year."

Ensuring that the tax system remains "internationally competitive" means that corporations will receive tax cuts and concessions, which will be paid for by further "tough" reductions in government spending, on top of those imposed to pay for the bailouts and stimulus packages.

Rudd maintains that economic crises contain a "paradox of recovery" because, as growth returns, "the economic conditions facing many families will deteriorate." Unemployment will continue to rise, even if growth returns, interest rates will increase, putting pressure on home-buyers, and commodity price rises will inflict "higher food and petrol prices on many Australian working families." In addition, "the government strategy to return the budget to surplus will involve some painful and unpopular decisions that will affect many Australians."

The word "paradox" denotes the existence of a contradiction. Its source can be readily identified: the conflict of opposed class interests.

With the collapse of the global regime of profit accumulation fueled by the development of financialization over the past two decades, a new regime must be set in place if the profit system is to be restabilized. That is the meaning of "recovery" so far as the capitalist class is concerned. It can only be secured through a complete "restructuring" of the economy—in Rudd's words "one of the most significant changes in global and domestic policy settings Australians have experienced"—namely, a reduction in living standards and the outright impoverishment of entire sections of the working class.

The conditions are being created for explosive social and political conflicts and Rudd concludes his essay by indicating how the Labor government will fight the coming war against the working class. Drawing on all the reactionary traditions of Laborism, going right back to its championing of the racist White Australia policy, the Labor government will invoke the "unity of the nation" as it imposes the demands of the ruling elites.

"Throughout this crisis," Rudd writes, "part of Australia's success has been built on our capacity to come together as a nation—workers, employers, unions, small-business people and governments. And that has been because we are all in this together.... Australians will need to draw on that same unity of purpose as we face the challenges of recovery."

The political meaning of the invocation of nationalism is clear: those who oppose the government's measures and fight for the independent interests of the working class will be denounced as "traitors" and

“saboteurs”, betraying the common good and therefore rightly subjected to the force of the state. The Chifley Labor government used the troops to break the miners’ strike in 1949; the Hawke-Keating government broke up unions and workers’ shopfloor organizations and then used the air force to smash the airline pilots’ strike in 1989.

There can be little doubt that under the impact of the deepest crisis of capitalism since the 1930s, these kinds of measures and more will be employed by the Rudd government as soon as serious resistance to its policies emerges.

The working class can only meet and defeat this offensive if it makes a complete political break with the nationalist ideology that forms the core of Laborism and advances its own independent perspective, based on the principles of socialist internationalism. Nationalism has proven to be a reactionary deadend. In the Great Depression of the 1930s it led directly to World War 2. The consequences today will be no less disastrous.

There is no way forward for ordinary working people under the profit system—unless ever-declining living standards, attacks on democratic rights, growing unemployment, poverty-level wages and deteriorating social services are considered a “solution”. The working class must defend all its immediate interests and advance its own solution to the crisis, based on the understanding that no answers can be found within the framework of the nation state and nothing less than a complete reorganization of the world economy is necessary. The productive forces developed by the unified labour of the international working class can no longer remain subordinated to the interests of a tiny layer of financial and corporate elites. The world economy must be reorganized on socialist foundations to meet the social needs of the vast majority not private profit. This is the program advanced by the Socialist Equality Party to meet the class war agenda of the Rudd government.



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