Australia: Workers warned to “brace for falling living standards”

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Prominent economist and former Labor government advisor Ross Garnaut has declared that the Australian economy’s “salad days” have now given way to “dog days” with the end of the China-fuelled mining commodities boom. He bluntly warned of sharply declining living standards over a protracted period.

Garnaut’s public statements form part of a wider campaign by prominent economists, financial commentators and media outlets for brutal austerity measures directed against the working class. The economic slowdown in China and the related plunge in global commodity prices—including iron ore and coal, Australia’s major exports—has triggered a sharp political shift. Federal and state governments have imposed major spending cuts in response to plummeting tax revenues. Big business and finance capital are demanding even greater inroads into social services including health, education and welfare, and American and European style attacks on workers’ wages and conditions.

At a September 19 conference organised by the Treasury, the International Monetary Fund and the Reserve Bank of Australia, “Structural Change and the Rise of Asia”, Ross Garnaut warned of a “very difficult time adapting to the decline in living standards that’s going to be a necessary part of the adjustment [to the end of the mining boom]”.

Earlier this week, Garnaut was interviewed on the ABC’s “Lateline” program and asked whether the Australian people were “sufficiently aware of what’s coming in terms of this reversal of economic fortunes”. He replied: “I don’t think the community as a whole is. Certainly the rhetoric from the government about restraint in government expenditure is consistent with what’s required, and in fact in the last couple of years we’ve run very tight budgets by long historical standards. But this has to be maintained now for quite a long period of time and I think lots of Australians haven’t assimilated that... Elements in the community [that] are recipients of tax cuts, of government expenditure, have come to expect a continuation of what could be delivered in the short term in the salad days.”

The *Australian Financial Review* spoke with Garnaut and noted that he “compared the current challenges to those faced by Australia during the Great Depression, which resulted in the 1931 ‘Premier’s Plan’ that included large cuts in government spending”.

Garnaut, now a professor at the University of Melbourne, has longstanding ties with the Labor Party. He was senior economic advisor to the Labor government in the early 1980s that in collaboration with the trade unions imposed “free market” policies that produced unprecedented social inequality as wealth was siphoned from the bottom of society to the top. Garnaut was also Australia’s ambassador to China between 1985–88, while more recently he has served as Prime Minister Julia Gillard’s chief climate change policy advisor.

Garnaut’s public campaign for austerity is part of the Gillard government’s preparations for savage spending cuts. His reference to the “Premier’s Plan”—which saw an across-the-board public spending cut of 20 percent, with wages also slashed—was not an exaggerated historical reference. The Labor government has promised the financial markets a budget surplus next year, involving cuts and savings equivalent to 3 percent of gross domestic product. This is set to mark the sharpest budget shock since World War II.

Garnaut is also providing the government with the necessary ideological cover for its assault on the social position of the working class, by calling for “shared sacrifice”. He told the *Australian Financial Review* that “strong political leadership” was required to build “a mood for shared sacrifice”. He also boasted of the Hawke government’s record in imposing a “long period of restraint—public fiscal restraint and incomes restraint, again around a context of shared sacrifice”.

Garnaut presents the current austerity measures as an unfortunate but necessary, limited period of belt tightening, involving a few cutbacks that will be followed by a return to “normal” economic conditions. The reality is very different, however—what is underway around the world is a social counter-revolution orchestrated by the ruling elites. The central aim is to permanently lower the living standards of the working class by destroying every concession gained in the course of the 20th century, including the provision of basic public services including education, healthcare and welfare.

The sudden end to the global mining commodities boom has triggered sharp pressures throughout the Australian economy. This week the Reserve Bank lowered the official interest rate to just 3.25 percent, only 0.25 percent higher than the rate set during the height of the 2008-2009 global financial crisis.

The Bank's governor, Glenn Stevens, explained that this was because the "outlook for growth in the world economy has softened over recent months, with estimates for global GDP being edged down, and risks to the outlook still seen to be on the downside." He added that declining commodity prices had seen Australia's terms of trade decline by more than 10 percent from last year's peak. He noted that this "will probably decline further". Stevens also forecast declining mining investment: "Looking ahead, the peak in resource investment is likely to occur next year, and may be at a lower level than earlier expected."

The interest rate decision was followed by yesterday's announcement of a $2 billion Australian trade deficit for August—a figure three times higher than had been forecast by market analysts. It marked the largest monthly trade deficit recorded since March 2008 and came despite an increase in export volumes. The deficit was largely due to the 35 percent fall in iron ore prices and 25 percent decline in coal prices between mid-July and early September.

David Murray, the former head of both the Future Fund and the Commonwealth Bank, appeared on the ABC's "7.30" program on Wednesday to deliver a sharp warning that the global financial markets would not tolerate any hesitation to gut welfare spending: "We have a high fixed-cost in our budget, mostly in welfare, which is now up to 100 per cent of the personal tax take," he stated. "So, with those problems and a persistent current account deficit, Australia is not a country that can afford very much public debt, yet the public debt's been rising."

Asked if the Australian economy would likely avoid the kind of sovereign debt crises seen in Europe, Murray replied: "No, because Australia's far too dependent on the rest of the world, both for trade and capital." The program's presenter, Leigh Sales, incredulously asked how a Greek-style crisis could be possible—"Easily possible," Murray answered. "If we keep doing what we're doing, we'll get there."

Sales insisted that "we've got so many things that are different—Australians pay more tax than Greeks, our public sector's more accountable, we have our individual currency", but the former Future Fund chief gave this short shrift. "We're not a highly productive economy, our net foreign liabilities as a percentage of GDP are very high in the world, they're not low and we have this persistent current account deficit," he explained. "In short, all the entitlements we want to have are not ours—they're being funded at the pleasure of some people who save and live offshore. And there comes a time if you work that way that these people say, 'No, I don't want to finance that anymore,' and that's what's happened to Greece and Spain and Italy."

Prime Minister Gillard dismissed Murray's warnings, declaring it "absurd" and "grossly irresponsible" to make any comparison between the Australian and European economies. But she failed to answer any of the issues raised by the corporate chief.

Murray's central warning—of the enormous dangers posed by the domestic economy's complete dependence on foreign capital inflows—is not based on conjecture. In 2008, at the height of the global credit crunch, the major Australian banks were unable to access the finance from the world markets required to sustain their day-to-day operations. A collapse of the Australian banking system, which would have triggered an unprecedented economic crisis, was only averted when the federal government pledged unlimited public money as a guarantee for the major banks' assets and debts. The Labor government's nervous reaction to Murray's remarks reflects its unwillingness to engage in any public debate about the likely impact of the next financial crash.