Wage suppression: The international strategy of finance capital

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Cost of living pressures resulting from the surge in inflation and the decline in real wages going back decades have forced themselves to the centre of the Australian election campaign with both the Liberal and Labor parties, albeit in different ways, supporting the continued driving down of workers' living standards.

In the leaders television debate on Wednesday night, Prime Minister Scott Morrison made it clear he is completely opposed to even the totally inadequate call for an increase in the minimum wage of 5.1 percent. Officially, inflation is already at 5.1 percent, but real cost of living increases are far higher.

The question emerged when Labor leader Anthony Albanese said in remarks to the press the previous day he would "absolutely" support such an increase if that is what the Fair Work Commission decides on in June. The pro-business industrial tribunal has cut or suppressed wages since its creation by the last Labor government, underscoring the bogus character of Albanese's posturing.

Morrison nevertheless characterised the remark as "incredibly reckless." The Labor Party spent the time preceding the debate making clear it was not formally advocating even this paltry increase. The party's shadow treasurer Jim Chalmers told the Australian Broadcasting Corporation that Labor had made no formal decision and it was yet to be determined.

Albanese's main pitch, repeated endlessly throughout the campaign, is that the key to rising living standards is an increase in productivity. But data going back decades gives the lie to this assertion.

Figures produced by *Guardian* economics journalist Greg Jericho this week show that for the past two decades productivity growth has consistently outstripped wage increases. In other words, while output per worker has increased, the vast bulk of this growth has gone to employers as additional profit.

This has been made possible by the sweeping changes to the industrial relations system initiated under the Hawke-Keating Labor governments and further developed through the provisions of the Fair Work Commission introduced by the Rudd-Gillard Labor governments, with the collaboration of the trade unions and enforced by them.

The eruption of the wages issue in Australia is part of an international process as central banks, the representatives of finance capital, demand that wage increases be forcibly suppressed through the lifting of interest rates. This means imposing a recession, if that proves necessary, in a pre-emptive strike against workers striving to obtain compensation to meet rampant inflation.

These issues were underscored in an interview conducted by Marketplace with the US Fed chair, Jerome Powell, yesterday. He said the process of getting inflation down to 2 percent would "include some pain" as he focused his remarks on wages. They were "moving up at levels that are unsustainably high and not consistent with low inflation."

The Fed has signalled it is prepared to lift its rates by 0.5 percent at each of its next two meetings with further rises to come. If inflation came in worse than expected "then we're prepared to do more," Powell said.

The international strategy to drive down wage demands was set out in a bulletin published by the Bank for International Settlements (BIS), an umbrella organisation for the world's central banks, last week.

Inflation, it said, had returned to levels not seen in decades and whether it entered a "persistently higher regime will depend on labour market developments, and on whether a wage-price spiral emerges."

The report said that "by many metrics" labour markets appeared tight in large, advanced economies where inflation has risen the most and a "key concern for central banks is the possible emergence of a wage-price spiral."

The prospect of the development of the class struggle always creates fear in the mind of finance capital.

But this is particularly the case today. Inflation is at a level with which the ruling classes have not had to deal for 40 years. Moreover, the global financial system is extremely fragile because of the massive increase in debt flowing from the injection of trillions of dollars by central banks over the past decade and more.

The BIS warned that increases in money wages were more likely if labour markets continued to tighten and increased workers' bargaining power, leading them to try to recoup past losses and secure additional gains to protect themselves against further price hikes.

It noted that the likelihood of a wage-price spiral depended on macroeconomic conditions, that is, whether the economy is expanding, stationary or in a recession. Firms may feel able to pass on wage increases in the form of price rises when aggregate demand is strong—the clear implication is that if this transpires, the wage-price growth will have to be suppressed with interest rate hikes.

"Monetary policy provides the backdrop against which these forces play out. A credible bank policy that takes appropriate action in response to changing macroeconomic conditions and communicates effectively helps to anchor inflation expectations. This in turn reduces incentives to demand higher nominal wages and set higher prices," the BIS said.

The language may be guarded but the meaning is clear. Central banks must be prepared to lift interest rates to such a level that they bring about a recession if that is what it takes to suppress wage demands.

That road is already being followed with Powell repeating on numerous occasions over the past weeks his admiration for former Fed chair Paul Volcker, who lifted interest rates to record highs to induce a deep recession and crush wage demands in the late 1970s and 80s.

In his Marketplace interview, Powell stated: "We know that what Paul Volcker did what was right in his situation, and it's something like that might turn out to be right here."

The BIS was cognisant of the crucial role played by the trade unions internationally, going back decades in suppressing wage demands, noting that "institutional changes" hinted at an environment less conducive to wage demands as workers' collective bargaining power had declined.

It clearly hopes this situation will continue. But the BIS is fearful it may not. It noted that there had been increases in wages in the leisure and hospitality sectors in the US but spillovers to other sectors were unlikely. However, it saw dangers emerging.

In the US, it said the "recent increase in manufacturing wages may pose greater risks, as wage growth in this sector has historically had large spillovers." These fears apply not only to the US but to all major economies, where the trade unions play the decisive role in enforcing wage suppression in these key industries.

The cuts in real wages are openly acknowledged by the mouthpieces of the ruling financial and economic establishment.

As the former chairman of the US Council of Economic Advisers, Jason Furman, recently commented: "The 8.5 percent increase in the consumer price index in the 12 months through March, is much faster than the pace of nominal wage growth, leading to the fastest declines in real wages over a year in at least 40 years."

This process is being replicated in all the major economies. But even as they acknowledge that real living standards have been cut, the representatives of financial capital are demanding still more.

There is a direct parallel with the COVID pandemic. Capitalist governments around the world refused to implement basic public health measures to eliminate the virus because they feared this would cause a crisis in the stock markets, inflated to record heights by the injection of virtually free money by the central banks.

Now they fear that a movement of the working class will bring about a collapse in this financial house of cards. Therefore it must be crushed by all means necessary. They hope this can be done through the deepening collaboration with their industrial policemen, the trade unions, but if it cannot, then authoritarian measures will be employed.

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