

THE POVERTY OF PROGRESSIVISM

Australia survived the GFC well, but local progressives still believe it justifies greater government economic and social control, writes **Barry Maley**

Goodbye to All That? On the Failure of Neo-Liberalism and the Urgency of Change

Edited by Robert Manne and David McKnight

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This collection of essays aims to show how capitalism, or ‘neo-liberalism,’ has failed in the aftermath of the global financial crisis. Ideologically, the book is pretty much a re-run of *Shutdown: The Failure of Economic Rationalism and How to Rescue Australia*, published in 1992 and edited by Robert Manne and John Carroll. ‘Economic rationalism’ has become ‘neo-liberalism’ in this new book. In the meantime, Carroll, a man of intellectual integrity and the courage to change his views when the facts demand it, has published a letter in the press disavowing views he accepted in the 1992 book and acknowledging that the critics of that book were right. This new book, however, doggedly maintains the faith in a collectivist political economy, activist government, and radical environmentalism.

Two catastrophes, one real and the other forecast, oil the wheels of this progressivist vehicle: the global financial crisis and ‘catastrophic

climate change.’ The first is recruited to prove that capitalism and ‘neo-liberalism’ have failed; the second serves as the excuse for a ‘change’ whose character is never described systematically or in any detail but which is essentially a drive towards more regulation and government control. Comments that follow deal with each of the essayists in turn.

Robert Manne

Robert Manne opens with a summary of what he understands to be ‘neo-liberalism.’ It is a fair enough précis of what most would take to be the current understanding of some aspects of classical liberalism, especially if Friedrich Hayek is seen as an exemplar. However, it omits huge areas of what might be described as liberal-conservative thought and research over the last

Barry Maley is a Senior Fellow at The Centre for Independent Studies.

30 years or so and that go well beyond the supposed 'market fundamentalism' preoccupying this book. Classical liberalism, or 'neo-liberalism,' has always been about a great deal more than economics.

Accordingly, little is said in this book about liberal interest in topics in political economy and social affairs, or their connection with the economy. Indeed, the attention given to market theory by liberals since Adam Smith arose in large part from the recognition that understanding the conditions for widespread material progress and increasing wealth are fundamental to the continuing relief of a host of social problems and the improvement of individual wellbeing. Economic freedom within a market system, subject to law and secure property rights, releases enormous energies for enterprise, innovation and the common wealth.

So, a certain myopia characterises Manne's essay, and this is compounded when he decides to limit his assessment of 'the impact of neo-liberalism to one country—the United States [where] the impact of neo-liberalism was felt most purely.' This 'purity' is greatly exaggerated, and takes what has happened in America recently to be paradigmatic of 'neo-liberalism' everywhere, when this is far from the case. It avoids dealing seriously with those aspects of Australia's good fortune in the GFC that can be attributed in significant degree to sound neo-liberal policies and effectively implemented prudential regulation (unlike the American experience).

The GFC and its effects in America, in Manne's account, are due to 'market fundamentalism.' However simplistic such a view is, it must be allowed that the American financial system and leading figures in government, the Federal Reserve system, and in banking generally emerge with little credit. But while Manne attributes much to the market in relation to excessive executive remuneration, bonuses and stock options, he neglects some important organisational, managerial and 'agency' issues rather than market failures that lie behind many of the excesses. The latter, in the form of huge commissions and fees, arose primarily from the expansion beyond all reason of the

'derivatives' market whose emergence and collapse triggered the crisis. It is this crisis and its aftermath that Manne mistakenly attributes to neo-liberal market fundamentalism. The smidgen of truth in this claim rests upon some remarks and confessions by Alan Greenspan, former Chairman of the Federal Reserve, who endorsed, on free market grounds, the trade in derivatives.

Manne underplays the failure of two giant institutional children of government intervention into housing mortgages—Freddie Mac and Fannie Mae. He mentions them but says little about the way in which government encouraged housing loans to people with little capacity to repay, with the inevitable result of foreclosure and the wider collapse of the housing market and credit. To all of this must be added the contribution of the American

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government to rising budget deficits, and hence the credit crisis, along with a similar growth in borrowing by European social democratic governments.

The credit orgy that caused the GFC was accompanied by enormous individual windfalls for many in the financial system. Some of it was no doubt due to sheer criminality, personified by Bernie Madoff's \$50 billion defrauding of his clients (which Manne mentions). But the great bulk of it was legitimate, even though built on sand.

But for Manne, legitimately acquired fortunes and the inequality they imply cannot be excused—even fortunes made outside the financial system in the manufacturing, retail and service sectors of the gigantic American market by people such as Bill Gates, the Walton family of Walmart, and Warren Buffett. He is appalled by gross inequalities of income and accumulated wealth. It is, for him, the mark of 'moral evil'—and the greater the inequality, the greater the evil. If one accepts that gross inequalities of income and wealth can never be accepted or

justified, even if accompanied by a high, rising and widely distributed standard of living for the rest, then one might be inclined to agree with him. If so, then one is committed to accepting a justification for radical re-distribution of wealth in a society, because the more stringent the thrust to equality, the lesser the moral evil.

However, to move in such a direction would be to destroy the incentives for creating wealth and improving oneself in the first place, and all would suffer in the long run. The wealth of Bill Gates and the Waltons and, to take an Australian example, Rupert Murdoch, are the fruits of enterprise and ingenuity represented in the working capital assets of hundreds of organisations employing hundreds of thousands of individuals around the world, and supporting many more through their families. We cannot accept economic inequality as intrinsically evil and must allow the legitimacy, and the disseminated benefits, of lawfully acquired wealth.

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To acknowledge all this is not to deny a justification for redistribution of wealth to support those who, through sickness, disability and indigence, cannot support themselves. It is rather to stress the importance of finding a balance that will provide social support while promoting the economic and social circumstances that will optimise wealth creation, civic decency, and personal liberty. Nobody suggests that finding the right balance is easy; in fact, trying to do so occupies a large part of this nation's political energies.

Beyond the global financial crisis, the second but yet to occur catastrophe attributed to neo-liberalism is 'catastrophic climate change' caused by the release of carbon dioxide arising from human activities. As the mistakes and promulgation of misleading information by the International Panel on Climate Change and the 'climategate' scandal have found their way into the media, public opinion is changing in

the direction of rational scepticism. This change has been brought about at an international level by many organisations and individuals with multiple allegiances and interests.

It is therefore odd that Manne singles out The Centre for Independent Studies as one of those 'think tanks [who] were important propagators in their publications of climate change denialism.' Apart from a short sceptical article in the press by myself, written in a private capacity and not as a spokesman of the Centre, and no more than a few sentences elsewhere by myself and others in the Centre's name, CIS has been quite inactive in the debate over climate change science, choosing to devote its limited resources to other matters of longstanding interest and importance. Nevertheless, Manne obviously thinks that it bolsters his case against neo-liberalism to associate the CIS, in however far-fetched fashion, with climate scepticism.

Jean Curthoys

In the second, more scholarly and less polemical essay, Jean Curthoys unveils the case for 'boring political philosophy' but not with great success. Curiously enough, this has an almost conservative feel to it, insofar as it cautions against large ideological claims and faith in 'absolutes.' The search for absolutes, she suggests, is exciting but dangerous. She then builds her case against neo-liberalism by treating it as just as absolutist as totalitarian ideas. Neo-liberalism is as ideological as Marxism and simply the other side of the same philosophical coin. However, she pulls back from parody by telling us, in parentheses: 'There is, of course, no claim that the former comes anywhere near the latter in terms of damage done, lives lost or terror maintained.' Well, thanks for that.

Here again, neo-liberalism's essence is said to be found in a 'market fundamentalism' that has comprised the core of ideological attempts to lift backward societies, or societies ruined by communism or socialism, into a genuine developmental phase. These attempts regularly failed to achieve their aims because they acted in ignorance of, or ignored, the crucial countervailing factors of history and local

circumstance, with unhappy consequences. This is undoubtedly true, but it is a slim foundation on which to build a knock-down argument against market economies or neo-liberalism more broadly understood. The record of success in functioning market economies overall is just too overwhelming.

Curthoys' major claim is that at the heart of neo-liberalism is a belief in the dogma of a self-regulating market system. She is well aware of the role of the price system as an information vehicle under conditions of competition, and how the absence of such a system under socialist command and control make a rationally and centrally planned economy impossible. For her, the most that can be claimed for the competitive price mechanism is that it is a necessary but not sufficient condition for the coordination of a large-scale economy. I am not aware that Hayek thought otherwise, and his writings, especially *The Constitution of Liberty* and *Law, Legislation and Liberty*, clearly indicate a much more comprehensive view of the matter. But Curthoys uses the above claim to accuse Hayek of a kind of Marxian absolutism that cannot be sustained.

Kevin Rudd

Kevin Rudd's essay published in February 2009 on 'Social Democracy and the Global Financial Crisis' is given another outing in this book. Its flaws and extravagances have been canvassed widely, such as the preposterous claim that neo-liberals believe that government is an 'intrinsic evil.' The core of Rudd's argument, as with Manne's, is that the GFC demonstrates the failure of neo-liberalism; the indispensability of government intervention to rescue the collapsing economies; therefore, the need for more 'social democratic' government supervision; and control for the indefinite future to ensure 'properly regulated markets.'

As with Manne, 'neo-liberalism,' presented as an ideal type, is implicitly taken to be a unitary phenomenon in Western Europe and the Anglosphere. No account is taken of the very important variations in liberal practices within individual nations and the larger and lesser degrees of social democratic interventions and

regulatory and fiscal excesses in their economies. Not surprisingly, the United States is taken to be the most egregious example of 'greed,' inequality, financial plunder, and unregulated markets.

Fortunately or unfortunately, we now have evidence of the skill with which Rudd's social democratic government followed an exemplary fiscal and social democratic path 'through the creative agency of government' in installing pink batts and school sheds. Nothing evil there but plenty of government incompetence and waste.

John Quiggin

A similar faith in government and an extensive welfare state is revealed in John Quiggin's essay, which offers a slightly more technically economic resume of the GFC and the course it took, with attention given to the measures used by governments overseas and in Australia.

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Early on we are told, 'Fiscal stimulus was similarly effective in the United States.' Also, 'Although European countries were unable or unwilling to adopt discretionary fiscal stimulus on such a large scale, the strength of European welfare states implies the existence of a substantial stabilization effect.' Neither stability in the European Union nor fiscal rectitude appears to be a characteristic of the EU's current members despite the predominance of welfare states. A few sentences later we learn: 'Towards the end of 2009, unemployment rates were approaching 10 per cent in the United States and European Union and appeared likely to increase further.' Australia performed much better, as Quiggin allows, but attributes this to 'good management' without explicitly mentioning the earlier implementation of liberal policies behind that 'management.'

Michael Pusey

Michael Pusey's essay starts with a quick rundown of economic history in Australia through the 1970s and 1980s, when Australia faced

‘the double affliction of high unemployment and high inflation.’ This was after several years of Keynesian policy and activist social democratic government during the Whitlam flight of fancy.

In these unhappy circumstances, Pusey says the ‘imported solution was to clear away the institutional obstacles and open the field for turbo-capitalism and corporations on steroids.’ Ah, if only it had been so. The significant but less than drastic reforms of the Fraser and then the Hawke and Keating governments do not deserve this extravagant language. Despite successive re-elections of the Hawke and Keating governments, ‘this revolution,’ Pusey says ‘never enjoyed public support.’ But Pusey later adds, through gritted teeth:

Many people believe that, yes, the economic re-structuring of the past quarter-century did have a few nasty side effects but that, on balance, it has brought affluence and prosperity to the wider Australian population.

Seemingly afraid that he has given away too much, this concession is followed by several pages of claims that, really, prosperity is all dust and ashes anyway because ‘the new dispensation has downloaded corporate risk onto households and made the mass of middle-income families feel as though they are running up the down-escalator and running out of coping strategies.’ The truth is that ABS figures (*Australian Social Trends*, 2007) show that between 1992 and 2006, real net disposable income per capita rose from about \$25,000 to about \$37,000, an increase approaching 50% and widely disseminated through the income quintiles.

Anne Manne

Early in her essay, Anne Manne states that it is ‘emblematic of the neo-liberal era that mothers are given “equal opportunities” to succeed, so long as they fulfil the extreme worker norms of the corporate world ...’ The suggestion seems to be that ‘neo-liberals’ believe that for mothers, both procreation and a job should be compulsory rather than voluntary because:

No accommodation is made for the very human and indissoluble needs for care [i.e. child care]; and where work became so enchanted a value that there is no time even to welcome a new human being into our midst.

This is a rather extraordinary claim. One would think that urging lifetime careers for women as well as motherhood was more ‘emblematic’ of the feminist movement than neo-liberalism, even though the liberation of women and their freedom of choice have been part of liberalism since John Stuart Mill. Be that as it may, in the Australian context, liberals have been very active in acknowledging women’s freedom to choose either work or domesticity when they have children and regularly promoted financial support for the costs of raising children and child care. It is a long bow indeed to see the modern feminist movement and its objectives as the child of ‘neo-liberalism.’

Manne goes on to complain that the ‘embrace of the free-market philosophy radically undermined the economic foundations of the traditional, single-income, male-breadwinner family’—after apparently calling for the fuller recognition, in matters of child care, of the essentially feminist model that displaced it. Apart from that, such a statement attributing its demise to ‘free market philosophy’ is misleading and simplistic.

Many forces, not least the growth of government under social democratic regimes and the higher taxation to fund it, have been fundamental in undermining the single income family, squeezing family incomes relative to earlier times and putting pressure on couples for both partners to work. Insofar as falling birth rates may be one reaction to this situation, it is notable that the prosperity, tax relief, and enlarged allowances for children and their care of the Howard years were accompanied by an increasing birth rate. Between 2001 and 2008, Australian fertility rose significantly from 1.73 children per woman to 1.97 per woman. The Productivity Commission has identified rising prosperity over this period as a significant factor.

The bulk of Manne's essay is concerned with important questions of child care. This discussion does not really raise any important issues for 'neo-liberalism,' and her broad conclusion, on the basis of some evidence, that there is a causal connection between more 'equal' societies and better child care arrangements deserves more critical analysis than she offers.

David McKnight

David McKnight's essay begins with an extended encomium of Kevin Rudd, with extensive quotations from his writings including several from the essay included in this book. There is also considerable discussion of public policy, drawing heavily upon Labor and Labour (UK) initiatives of a welfarist and interventionist kind. It includes, perhaps somewhat surprisingly, a recommendation for the use of government vouchers to help parents pay for their children's education. This occurs in the context of discussion of a broader appeal to quasi-market solutions in other fields of government policy and action. In this connection, Hayek is (approvingly?) quoted on the role of competition in rational economising.

It is refreshing to find in this essay a more searching and objective discussion of market-oriented policy options in relation to various subjects, but disappointing to find final judgments favouring extensive dependence on governments as authors and controllers.

Ian Lowe

Ian Lowe, in his essay, expatiates on his known interests in the limits to growth, peak oil, environmentalism, climate change, etc. The essay is a study-at-length in environmental and climate change orthodoxy of a very uncritical kind, full of the standard warnings of disaster awaiting us if we do not mend our ways by curtailing our 'consumerism' and failure to live in balance with the natural system. There is, of course, no doubt that protection of the environment is a vital and never-ending task, and surely the argument for doing our best has been won. But how well this can be achieved while promoting a fuller and prosperous life for more

and more people is not much advanced by Lowe. Little is said that is new or original.

Guy Pearce

Guy Pearce, like Michael Pusey and Ian Lowe, does not like consumption. He says that although people 'sought status through conspicuous consumption long before the era of "extreme capitalism",' the big change 'is the extent to which neo-liberal policies have driven the masses to seek happiness through consumption, enriching individuals at the expense of communities on a grand scale.' It is not altogether clear what this means, presumably that capitalism necessarily enriches a handful of individuals at the expense of the rest of

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us. If so, it is the same charge as that by Robert Manne earlier: gross inequalities of wealth under capitalism are necessarily evil and incompatible with rising wealth throughout a community; therefore, social democracy or 'social justice' demands radical equalising of incomes and wealth through governmental redistribution. It is a claim dealt with when discussing Manne's essay.

The other aspect of the 'big change' that Pearce refers to is the extent to which classical liberal policies have driven the masses to seek happiness through consumption (because they now have the resources to do so?) and apparently, this consumption is on such a scale that these consuming individuals 'create emissions and greenhouse pollution.'

The rest of the essay expands upon this theme and becomes a long warning about anthropogenic climate change and an extended browbeating of 'skeptics and contrarians' who are aided and abetted by the neo-liberal impulse 'to delay action that restricts emissions.' That this 'impulse' is by no means the child or monopoly of neo-liberals but widespread and growing among scientists and individuals with all sorts of allegiances appears to be ignored.

The poverty of progressivism

Inssofar as this collection claims a unifying focus, it consists in the deployment of three themes. First, is the way in which the global financial crisis has unmasked the pretensions of ‘neo-liberalism’ or ‘economic rationalism’ or ‘extreme capitalism’ to promoting greater economic efficiency and the wide dissemination of rising affluence. Second, is the supposed leading role of neo-liberalism in purveying climate change scepticism and its responsibility for a consumerist ethic that is destroying the environment more generally and failing to raise living standards. Finally, and perhaps most important of all, is the implicit acceptance (under a competitive and free market) of inequalities of wealth, which is seen as intrinsically evil.

The implicit, and sometimes explicit, message in all these essays is the need for ‘change’

in order to recover from the supposed depredations of ‘neo-liberalism’ and ‘market fundamentalism.’ Beyond vague calls for ‘social justice’ or social democratic solutions, nowhere do we find a serious attempt to specify what these changes might be. Lurking modestly in the background, however, is either a coy acceptance of capitalism or reluctance to call openly for its abolition in favour of a more outright socialism and radical redistribution of wealth. If capitalism is to remain, we are given no indication of how and to what extent it will be tamed, or what the consequences for liberty and economic efficiency might be. What remains clear is the talismanic commitment of social democracy to radical economic egalitarianism, but the answer to the vital question of where this would lead us is left undisclosed.

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