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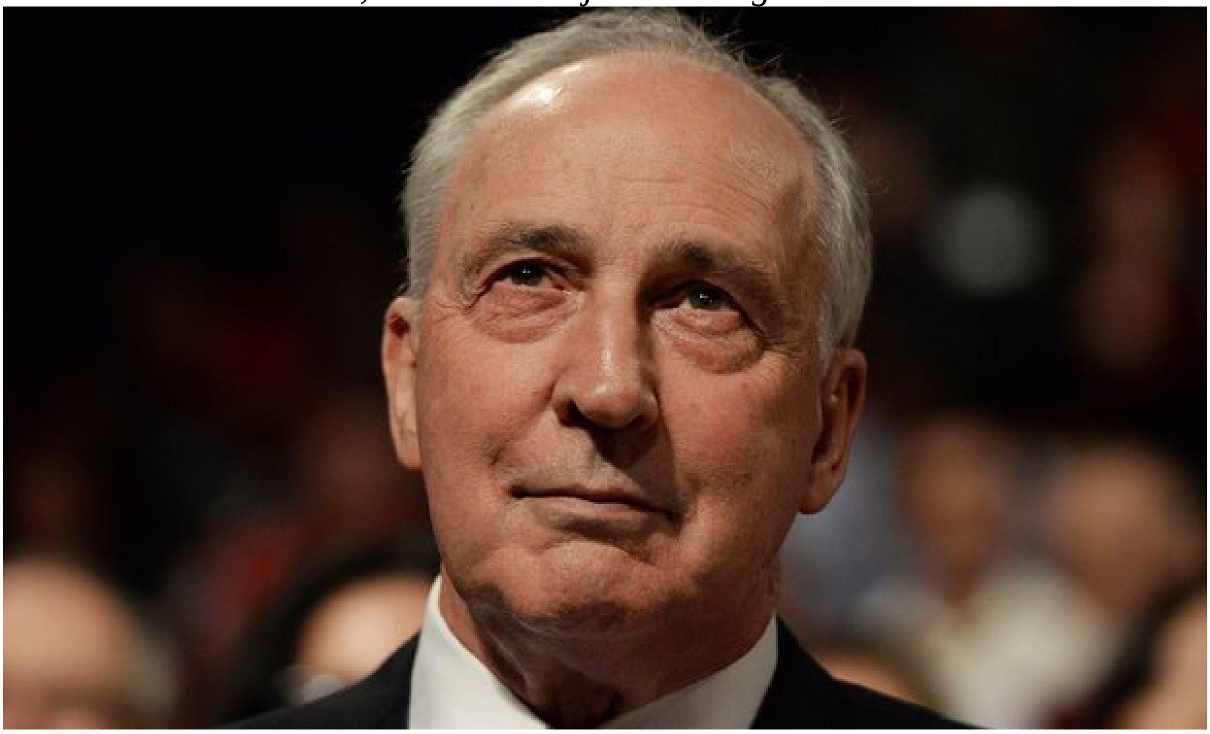
Flogging the dead horse of neoliberalism isn't going to improve the economy

ACTU secretary Sally McManus was lambasted by the right for saying neoliberalism is dead, but she was just stating the obvious



Paul Keating, seen by many as a neoliberal champion, now says 'liberal economics has run into a dead end'. Photograph: Pool/Getty Images

Greg Jericho
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This week brought fresh outrage from conservatives as the new secretary of the Australian Council of Trade Unions, Sally McManus, told the National Press Club "neoliberalism has run its course" and Paul Keating, seen by many as a neoliberal champion, agreed with her. But rather than provoke cries of communism and class warfare, for anyone who has been paying attention over the past decade, the correct response to McManus and Keating's assertions should be "well, duh".

McManus's speech, in which she not only rang the death knell for neoliberalism but reiterated the right for unions to resist unjust laws (pretty much a central tenet of unions ever since unions were first illegally formed in the 1800s) drew the expected shrieks from the right. The Australian's editorial, for example, referred to it as "class warfare", and Peter Dutton called her a "modern-day communist".

It's always class warfare when those representing the low paid worry about inequality. When the most powerful business executives in Australia come to parliament and demand their companies get a tax cut – as occurred on the same day as McManus's speech – class warfare is never mentioned.

That's because neoliberals see company tax cuts as good for workers. A lower company tax, so the theory goes, leads to increased investment, which in turns increases productivity and leads to better pay for workers. It's a nice theory, and one that works nicely so long as you ignore that over the past decade productivity has risen while real wages have barely grown.

The great thing about neoliberalism (a bit of a dopey term, that really just means "small government-pro-market" policies) is that it always works so long as you ignore all the times it doesn't. In the 1980s, neoliberal economic reforms did work well, if you ignore the 1987 stock market crash and the deepest post-second world war recession Australia has ever seen.

The great period of moderation from the early 1990s onwards, where monetary policy took over the role of stimulating the economy from government spending, also worked well so long as you ignore rising inequality, declining levels of infrastructure, housing affordability, the global financial crisis and the growth of radicalism which has seen racism and xenophobia come into major parties, and a situation where a senator of this country can actually lament in a mainstream newspaper that "many Jews want to suppress Holocaust denialism".

And the reality is we didn't need to wait for the GFC to know there were problems with letting the market rule. In climate change, we have the biggest market failure in the history of economics.

For pro-free marketers climate change is a nasty bur in their shoe. If you accept climate change could lead to rising sea levels, coastal inundation, dislocation of large masses of people, increased intensity of tropical storms and droughts, and grave risks to food and water supply, then you have to accept the market failed to account for such impacts and not only allowed, but ensured they would happen.

Little wonder many free marketeer thinktanks and political parties have instead embraced lunatic theories about climate change being a conspiracy involving the UN, Nasa, every university in the world, China, all major meteorological bodies, the World Bank and the makers of tin foil hats.

Delusion is preferable to admitting fault.

The love of neoliberalism also sees in Australia an odd nostalgia for the 1980s – a time where under the Hawke government "reform" flourished. Much like the belief in the infallibility of the small government/pro-market policy, the conservative nostalgia for the 1980s only makes sense if you ignore many things.

Yes, when the Hawke government took power in 1983 it brought with it a smaller government outlook – where balancing the budget was crucial, and where lowering tariffs, privatising assets and letting the market operate was championed. But it was also a government that introduced the capital gains tax, the fringe benefit tax, the petroleum resources rent tax, Medicare and the Accord.

It was also a long time ago. We are now as close to the 1983 election of the Hawke government as people at that time were to the 1949 election of the Menzies government.

Arguing Hawke and Keating's approach to the economy is the path to follow is roughly as sensible as someone in the 1980s suggesting Ben Chifley's policy to nationalise the banks was worth exploring.

Policy moves forward and good policy should react to failures. And right now there is a lot of failure.

From 1990 to 2007 the seven largest economies in the world grew on average by 2.3% each year; since 2010 (which leaves out the two horror GFC years of 2008 and 2009) that growth has averaged just 1.7%.

In Australia over the same two periods the average growth level has gone from 3.3% to 2.6%. Things have flatlined so greatly since the GFC that the Treasury now views Australia's long-term average growth level as 2.75% rather than the previous level of 3%.

And remember this is at a period where interest rates and wages growth are at record lows and industrial disputes at near record lows.

So when Paul Keating this week responded to McManus' statement by saying that "since 2008 ... we have a comatose world economy held together by debt and central bank money", he was stating the bleeding obvious.

Such has been the record of the world economy over the past 10 years that you would start to question Keating's intelligence were he not to assert that "liberal economics has run into a dead end and has had no answer to the contemporary malaise".

It is a view even the IMF – the former arch champions of neoliberalism – are also arguing. Last year researchers for the IMF argued the benefits from austerity measures (the most beloved neoliberal measure) were "fairly difficult to establish" but that "the costs in terms of increased inequality are prominent".

That doesn't mean we need to return to the 1970s, but neither does it mean we regard all the movements since the 1980s as positive – whether it be the push for ever lower company taxes, greater industrial relations flexibility, reduced government spending, falling real Newstart payments, failed work-for-the-dole schemes, taxation policy that rewards property speculation and lack of government intrusion to deal with climate change either through a price on carbon or investments in renewable energy and the energy market.

Sally McManus isn't being radical when she argues that neoliberalism has run its course, she is merely responding to evidence.