Australian PM's essay: an exercise in ideological damage control

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18 February 2009

Australian Labor Prime Minister Kevin Rudd has written a much-publicised essay, entitled "The Global Financial Crisis". [1] The essay's significance, however, resides not in any economic insights, but in what it reveals about the scale of the political crisis confronting the ruling elites and their political parties.

Rudd begins by noting that the impact of the global financial crisis is spreading across an ever-broader front: it has become, he writes, an economic crisis, an employment crisis and, in many countries, a social and political crisis. Furthermore, the implosion on Wall Street could have a long-term impact "on the future strategic leverage of the West in general and the United States in particular."

The global meltdown, Rudd argues, has called into question the "neo-liberal orthodoxy of the past 30 years—the orthodoxy that has underpinned the national and global regulatory frameworks that have so spectacularly failed to prevent the economic mayhem which has now been visited upon us."

Setting out his political agenda, the prime minister continues: "Not for the first time in history, the international challenge for social democrats is to save capitalism from itself; to recognise the great strengths of open competitive markets while rejecting the extreme capitalism and unrestrained greed that have perverted so much of the global financial system in recent times."

Recalling the actions of the Roosevelt administration in the Depression, the theories of John Maynard Keynes, the Marshall Plan that rebuilt postwar Europe and the Bretton Woods agreement of 1944, which set up the postwar international financial system, Rudd maintains that the thread running through these experiences was "a reliance on the agency of the state to reconstitute properly regulated markets and to rebuild domestic and global demand."

"The intellectual challenge for social democrats is not just to repudiate the neo-liberal extremism that has landed us in this mess, but to advance the case that the social-democratic state offers the best guarantee of preserving the productive capacity of properly regulated competitive markets, while ensuring that *government* is the regulator, that *government* is the funder or provider of public goods and that *government* offsets the inevitable inequalities of the market with a commitment of fairness for all" [emphasis in original].

The Labor prime minister warns that if social democratic governments around the world fail to rise to this challenge "there is a grave danger that new political forces of the extreme Left and the nationalist Right will begin to achieve a legitimacy hitherto denied them."

Rudd's concerns are shared by many other commentators, reflecting a growing sense within ruling circles that the relative political stability of the postwar period is rapidly coming to an end.

As the global financial crisis was gathering momentum last October, the *Financial Times* economics commentator, Martin Wolf, warned that everything had to be done to prevent the recession from turning into "something much worse", an outcome that would be a "recipe ... for xenophobia, nationalism and revolution."

In a similar vein, Ed Balls, the State Secretary for Children, Schools and Families in the British Labour government, told a Yorkshire conference last week that the world had entered the most serious recession for more than 100 years. "These are seismic events that are going to shape the political landscape. I think this is a financial crisis more extreme and more serious than that of the 1930s and we all remember how the politics of that era were shaped by the economy."

Rudd's essay and his political fears are motivated, not only by the depth and breadth of the economic meltdown, but above all by the way it has arisen. During the past 60 years, economic crises could be ascribed to factors other than the workings of the capitalist economy itself. The deep recession of 1974-75, for example, was held to be a product of the oil price "shock" of 1973. The 1982-83 recession was put down to problems created by inflationary pressures generated by the further oil price hike that followed the Iranian revolution of 1979.

In more recent times, the so-called Asian economic crisis of 1997-98 was ascribed to "crony capitalism", while the collapse of the dot.com bubble was attributed to the corrupt practices revealed at firms such as Enron and WorldComm. These later explanations were sustained by the fact that swift action by the US Federal Reserve in lowering interest rates staved off recession and ensured continuing economic growth.

But now, as Rudd acknowledges, citing the financier George Soros, "the salient feature of the current financial crisis is that it was not caused by some external shock ... the crisis was generated by the system itself."

How then to prevent the conclusion being drawn that the system that produced the crisis has reached an historical dead-end? How can social democracy step in to "save the capitalist system from itself"?

Rudd's answer is to bolster the political myth that what has failed is not the capitalist system but the extreme "ideology" that has dominated for the past three decades. This must be replaced with a new mindset, in which the operations of the "free market" are tempered by government intervention and regulation.

"The current crisis," he writes, "is the culmination of a 30-year domination of economic policy by a free-market ideology that has been variously called neoliberalism, economic liberalism, economic fundamentalism, Thatcherism or the Washington Consensus. The central thrust of this ideology has been that government activity should be constrained, and ultimately replaced, by market forces." The time has come to proclaim that "the great neo-liberal experiment" has failed and that the "free market fundamentalism it has produced has been revealed to be little more than personal greed". Consequently, Rudd concludes, it now falls to social democracy "to prevent liberal capitalism from cannibalising itself."

Rudd's political agenda was crudely summed up by the *Sydney Morning Herald's* chief political commentator Peter Hartcher in a piece published on February 4. Commenting on a banner reading "Marx was right.

Capitalism doesn't work" that was unfurled outside Parliament House during the debate on Rudd's $42 billion stimulus plan, Hartcher wrote: "Crisis is inherent to financial capitalism. As one authority on crises, the late Charles Kindleberger, observed, there is nothing more ordinary in the four century history of financial capitalism than a crisis.

"Where Marx was wrong was that he predicted the collapse of capitalism through the crises brought on by its 'internal contradictions'. But where the state can sensibly manage its flaws and repair its crises, capitalism will recover and endure. This is exactly what Rudd is doing, and he is doing it well."

But Rudd's analysis is shot through with contradictions. The most obvious, as several commentators have already pointed out, is that the social democratic parties now charged with the task of saving capitalism from neo-liberalism have been the foremost promoters of its free market agenda.

One only has to recall the demagogic denunciations made by former Labor Treasurer Paul Keating in the 1980s of opponents, within the ranks of the Labor Party, of his program of privatisation and the sale of government-owned assets as "Balmain basket weavers" and "troglodytes"—to the plaudits of fawning media commentators. Or consider the experience in Britain, where one of the central policy objectives of the Blair, and now Brown, Labour government has been to ensure that London remains one of the key centres of global finance.

Far from the Liberal Party being the "political home of neo-liberalism in Australia", as claimed by Rudd, the historical record shows that it was the Labor governments of Hawke and Keating that initiated the "free market" agenda in the wake of the collapse of the Fraser Liberal government in 1982. The Howard government of 1996-2007 only continued the measures initiated under Labor and, during its last years, came under increasing criticism from sections of the media, especially the Murdoch press, for having abandoned the drive for "reform".

Beyond the issue of which party bears responsibility for introducing the so-called neo-liberal agenda in Australia, a much more fundamental question needs to be addressed. Was this agenda simply a policy imposed in support of an ideology, as Rudd would have us believe, or was it, in fact, a response to an objective crisis in the capitalist economy?

The answer can only be found by analysing the historical record.

The emergence of neo-liberalism can be traced back to the recession of 1974-75—the deepest, to that point, since the collapse of the 1930s. There had been previous recessions and downturns in the 1950s and 1960s, but throughout this period the "free market" doctrines of Milton Friedman and his Chicago School remained on the outer. Even as late as 1969, US President Nixon maintained that "we are all Keynesians now."

The recessions of the postwar boom served a definite function—they helped clear away the less profitable and less efficient sections of capital, thus preparing the conditions for an overall increase in profitability and capital accumulation.

But in 1974-75 all this was to change. While this recession was overcome, it was not followed by a return to the previous conditions, but by the emergence of a new phenomenon—stagflation. The combination of historically high levels of unemployment and inflation, which had been ruled out by the Keynesian theory, signified that the basic contradictions of the capitalist mode of production, above all, the tendency of the rate of profit to fall, were reasserting themselves. The rapid rise of neo-liberalism was a response to these processes. In the boom of the mid-1960s, Friedman was regarded as something of an economic oddball. In 1976 he received the Nobel Prize for economics.

Before it had even been given a name, the new economic doctrine was being put into practice. In Australia, the last year of the 1972-75 Whitlam Labor government saw a major reversal in its program.

Handing down his budget in August, the treasurer Bill Hayden declared that its keynote feature was "consolidation and restraint", not a further expansion of the public sector.

"We are no longer operating in that simple Keynesian world in which some reduction in unemployment could, apparently, always be purchased at the cost of some more inflation. Today, it is inflation itself which is *the central policy problem.* More inflation simply leads to more unemployment."

This was fully a year before British Labour Prime Minister James Callaghan delivered his now famous September 1976 address to the British Labour Party conference. Callaghan announced the end of Keynesianism as his government sought a bailout from the International Monetary Fund. [2]

The onset of the neo-liberal agenda is associated with the coming to power of Reagan and Thatcher. But the process was well underway before their ascendancy. As the leading *Financial Times* journalist Samuel Brittan noted: "However much they were denounced by Labour in opposition, the most characteristic features of Thatcherism were also pursued by the last Labour government from 1976 to 1979, with only modest backsliding in the period approaching the 1979 election." [3]

Neo-liberalism's emergence was not simply the product of government policy changes. Rather, government policies were themselves a response to shifts in the world economy.

By the beginning of the 1970s, deep-rooted contradictions within the capitalist economy, which had been suppressed during the postwar boom, began to reassert themselves. The expansion of international trade, investment, the growth of multinational companies and the closer integration of the international financial system—in short, the expansion of the world market—was undermining the national foundations on which the postwar monetary system had been based.

The Bretton Woods Agreement of 1944 had set in place a system of fixed currency relationships grounded on a guarantee by the US government to redeem dollars for gold at the rate of $35 per ounce. But by the end of the 1960s the outflow of dollars from the US—to finance investment and military spending, especially on the Vietnam War—vastly outweighed America's gold holdings.

In the years following US President Nixon's decision, in August 1971, to remove the gold backing from the US dollar, the system of fixed currency relationships collapsed. And with the demise of currency regulation, the foundations of national economic regulation steadily disintegrated.

Keynes himself had been acutely aware of the conflict between the policies of national regulation he advocated and the global movement of capital. As he once wrote: "I sympathize ... with those who would minimize, rather than those who would maximize, economic entanglement between nations. Ideas, knowledge, art, hospitality, travel—these are the things which should of their nature be international. But let goods be homespun whenever it is reasonably and conveniently possible; and, above all, let finance be primarily national."

That conflict was now re-emerging with the break-up of the Bretton Woods system and the floating of currencies.

At the same time, the rate of profit, which had been lifted by the extension of more efficient American methods of assembly-line production to the rest of the advanced capitalist countries after the war, began to turn down. There were attempts to reverse this trend but they only provoked militant industrial struggles in all the major capitalist countries.

The postwar industrial regime could no longer be sustained. Not only had it failed to maintain profitability, but the large concentrations of industrial workers that it required constituted a source of dangerous political instability. This was the case in all the major capitalist centres, revealed in the May-June 1968 events in France, the Italian "Hot Autumn" of 1969, the Australian general strike in May 1969, the miners' and dockers' strikes in Britain in 1972 and the British miners' strike in 1973-74 that brought down the Heath government, and the militant industrial conflicts in America in the early 1970s.

The crisis of the postwar regime of accumulation was the driving force behind the far-reaching changes in the structure of world capitalism that began in the 1980s. Broadly speaking, this restructuring involved a vast growth of financialisation in the advanced capitalist countries—the accumulation of profit through transactions in financial markets—coupled with the transfer of labour-intensive manufacturing, and, more recently, service activities, to cheap labour countries in Latin America, South East Asia and, above all, China and India.

How far this has developed in Britain, one of the primary centres of financialisation, can be seen from figures published on February 9 in the *Financial Times*. In 2007, manufacturing accounted for only 13 percent of UK value added output, compared to nearly 33 percent in 1970, and nearly 40 percent in the 1950s. Only 3 million people work in manufacturing today, compared to 7 million in 1980 and 8 million in the 1950s. Employment in financial services meanwhile has risen from 3 million in 1980 to 6.5 million today. This pattern has been repeated in the US, Australia and many other advanced economies.

In the wake of the postwar boom, capitalism developed a new regime of profit accumulation. Based on financialisation and the exploitation of cheap labour, this was to find its consummate expression in the relationship between the United States and China.

The financialisation of the American economy, which has seen financial sector profits rise from 5 percent to 40 percent of total corporate earnings, began in the 1980s and was accompanied by the destruction of vast sections of industry. But its full development came with the integration of China into the global circuit of capital—especially after the Tiananmen Square massacre of June 1989, which involved not only the suppression of the student democracy movement, but, above all, a violent repression of the working class. By the early 1990s, China was rapidly becoming the source of cheap labour production for US-based and other global corporations.

Increasingly, the American economy was sustained by a series of financial bubbles—first in the stock market, then the dot.com phenomenon of the late 1990s, followed by the housing boom of 2001-2006. Financialisation required the provision of cheap credit—both to sustain consumption spending under conditions of a stagnation or decline in real wages, and to maintain asset market bubbles. And the supply of cheap credit was made possible because low cost goods imported from China kept inflation subdued. At the same time funds, generated by China's trade surplus, were "recycled" by financial authorities into the US financial system to support the ever-expanding American balance of payments deficit.

This China-US relationship was pivotal to the expansion of the world capitalist economy as a whole. That is why the financial crisis, which began in the US sub-prime mortgage market in 2007, has now led to a global economic breakdown. It marks the collapse, not just of large US investment banks and finance houses, but an entire regime of profit accumulation.

In other words, the very processes that developed in response to the breakdown of the postwar boom have now created the conditions for a breakdown of the profit system itself.

This is the second such breakdown in the history of capitalism. The first, in 1913-14, ushered in a period of wars and revolutions. A new capitalist equilibrium was only established after the deaths of hundreds of millions of people and the eventual victory of the United States over its rivals in 1945. Between 1968 and 1975, the collapse of the postwar boom saw the eruption of potentially revolutionary struggles. But, in the final analysis, American capitalism still retained sufficient reserves to effect a certain restabilisation of the world economic order.

Today, however, the crisis of the global capitalist economy finds its most concentrated expression in the United States.

Leon Trotsky once noted that in 1919, with Europe convulsed by revolutionary struggles in the aftermath of the Russian Revolution, the question of the day was whether US President Woodrow Wilson or Lenin would prevail. Would the world socialist revolution, which had make its first conquest in Russia, develop further, or would the United States, the newly-established leader of the world capitalist system, be able to defeat this threat to capitalist rule?

History appeared to have answered that question, at least for a considerable period when, with great difficulty and with the collaboration of the social democratic and then the Stalinist leaderships of the working class, US capitalism was able to prevail, finally bringing about a restabilisation after World War II.

Notwithstanding the revolutionary upheavals of 1968-75, the future of capitalism seemed, at least to short-sighted observers, to have been finally assured when the Stalinist regimes collapsed in 1989-91.

But, despite the delusional claims of the bourgeoisie, history did not come to an end.

For more than 60 years the United States provided the foundation upon which the world capitalist system has rested. In the long run, however, the "internal contradictions" of the capitalist system, which light-minded commentators such as Hartcher try to dismiss, have proven to be more powerful than the most powerful capitalist state.

The perspective of world socialist revolution has been placed back on the political agenda—not as some distant objective but as the only means of overcoming the disaster into which capitalism is plunging mankind.

Acutely conscious of the fact that a massive shift is taking place in the political consciousness of billions of people, Rudd's essay is an exercise in ideological damage control. The problem, he insists, is one of "extreme capitalism" and a "free market fundamentalism" that has turned out to be "little more than personal greed dressed up as an economic philosophy."

Rudd's attempt to assign the crisis to greed explains nothing. Greed existed long before financialisation, collateralised debt obligations, financial derivatives and sub-prime mortgages.

The robber barons of late nineteenth and early twentieth century American capitalism were ruthless captains of industry who accumulated vast wealth. Their personal histories, nevertheless, were bound up with the development of industrial processes and techniques that advanced the productive forces. Unlike this real engineering, the financial engineering of the past 30 years has been the means for the development of parasitism—accumulation, not through the development of the productive forces, but by the appropriation of wealth created elsewhere.

The fact that this parasitism has become so central to the functioning of the world economy over the past three decades signifies that it is not a "model" of capitalism that has failed but the system itself.

The emergence of greed, parasitism and corruption on the heights of the capitalist economy has provoked anger and disgust among people the world over—sentiments Rudd hopes can be deflected before they take more dangerous forms.

But the financial stench is only the symptom of a deeper problem: society cannot advance so long as its economic organisation remains subordinated to private ownership and private profit, along with the irrational conflicts and divisions created by the nation-state system. A higher social economic order, based on the utilisation of the productive forces to meet human needs, can and must be established by the international working class on a global scale. This is the simple truth that Rudd and his fellow social democrats are desperate to suppress.

[1] Kevin Rudd, "The Global Financial Crisis", *The Monthly*, February 2009

[2] See Ashley Lavelle, "Social Democrats and Neo Liberalism: A Case Study of the Australia Labour Party", *Political Theory*, 2005

[3] Cited in Marion Fourcade-Gourinchas and Sarah l. Babb, "The Rebirth of the Liberal Creed", *American Journal of Sociology*, 2002

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