Joseph Stiglitz in Australia: A desperate attempt to promote the illusion of reform

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The recent visit to Australia by American economist Joseph Stiglitz was politically significant in two key respects.

First, it pointed to the fact that the rapid growth of social and economic inequality has now become a major political issue in Australia as it is in the US and around the world.

Held in the immediate aftermath of the bringing down of the Abbott Liberal government's first budget, which has sparked a wave of opposition because of spending cuts that are perceived as being "unfair," Stiglitz's visit attracted considerable media attention and large audiences at public events.

After a series of speeches and media appearances, including on the Australian Broadcasting Corporation's television program Q&A, the visit culminated in a lecture and panel discussion on "The Price of Inequality" at the Sydney Town Hall, drawing a packed audience of more than 2,000. Such a large turnout would not have occurred even a few years ago but economic and social conditions are now changing very rapidly in the so-called "lucky country."

The second key aspect of the visit was the way in which it revealed the lengths to which the small 'l' liberal, "left" and intellectual establishment, fearful of the open eruption of class struggle that it portends, are working to try to ensure that mounting opposition and hostility to social inequality is confined to the safe channels of the parliamentary arena and the existing political framework.

Throughout the visit, these "progressives" eagerly seized on Stiglitz's core message: that the rapid growth of social inequality is not the inexorable outcome of the workings of the capitalist system as such, but is the product of political decisions that can be reversed, provided the ruling elites are sufficiently convinced of the errors of their ways and understand that greater social equality will ultimately prove beneficial for them as well.

At his Sydney Town Hall meeting, Stiglitz provided a revealing account of the situation in the United States, drawing upon the vast array of fact and figures provided by the economists Thomas Piketty and Emmanuel Saez, among others, that show the increasing concentration of wealth and income on the heights of society.

He noted that median household income in the US has stagnated for the past quarter of a century and that the real median income for a male worker is now lower than 40 years ago. Average real wages have been declining since 1973 while in the same period productivity has more than doubled.

Stiglitz noted that the Walton family, owners of the retail chain WalMart, has more wealth than the bottom 30 to 40 percent of the population. The top 1 percent in the US receives more than a quarter of all national income and holds more than one-third of the nation's wealth. While real wages have stagnated or declined over the past four decades, the share of national income received by the top 1 percent has more than doubled.

He drew attention to the fact that inequality has worsened since the eruption of the financial crisis in 2008, caused in part by the criminal activities of the financial elites. Since 2009, and the beginning of the so-called economic "recovery", the top 1 percent has received 95 percent of the additional national income. He rightly pointed out that for the bottom 90 percent there has been no "recovery" because their economic position has worsened.

In short, so far as the economic statistics were concerned, Stiglitz presented an objective and factual account of a society which resembles nothing so much as the *ancien regime* of France on the eve of 1789—one presiding over growing social inequality, utterly incapable of any meaningful reform.

However, it was at this point that objectivity ended and powerful political and, in the final analysis, class interests, asserted themselves as Stiglitz turned to the pressing question of "what is to be done?"

He held out the prospect that the ruling elites themselves would come to recognise that growing social and economic inequality was not in their interests and, in the long term, was detrimental to the functioning of American capitalism on which they depended and that they would therefore initiate change. After all, he noted, the ultra-rich American financier, Warren Buffett, had recognised that the super wealthy, such as himself, were paying insufficient taxes and that his side was waging and winning "class war."

The meeting chairman, former ABC radio presenter Adam Spencer, sought to probe Stiglitz's political perspectives in the question and answer session that followed the lecture. He put the proposition to Stiglitz that his "best hope" was the return of Democratic Party aspirant Hillary Clinton in the 2016 presidential election, to which Stiglitz indicated his agreement.

The question that cried out to be asked but which Spencer never put, no doubt because it would have served to puncture the illusion of reform, was: "Never mind Clinton, whatever happened to Obama? Where did 'the audacity of hope' and 'change you can believe in' go?"

Stiglitz's outlook is conditioned by his role as a figure within the Democratic Party establishment in the United States. He was chairman of the Council of Economic Advisers under President Clinton and was at one time the chief economist for the World Bank. So he has a direct interest in defending the capitalist system, which he has played a key role in administering, by promoting the illusion that, whatever its problems, it is still the best of all possible worlds and capable of reform in the interests of the people.

But it would be one-sided to simply conclude that his immediate interests and life-pursuits—important as they no doubt are—are the sole factor in determining the political agenda he advances.

Stiglitz's outlook is reinforced by and flows from his analysis of the capitalist system itself and the vast changes in its structure over the past 30 years.

It is in these structural changes that the roots of growing social inequality, and the consequent evisceration of democratic forms of government, must be sought. But Stiglitz excluded from the outset such an examination.

In his book *The Price of Inequality*, Stiglitz notes that inequality "did not just happen" but was created. "Market forces," he claims, "played a role, but it was not market forces alone." His "simple thesis," as he puts it, is that "even though market forces helped shape the degree of inequality, government policies helped shape those market forces." [p. 35]

This is no doubt correct … at least as far as it goes. The problem is it does not go far enough and the investigation stops at the point where it really should begin. There is no question that the coming to power of Ronald Reagan—Stiglitz pinpoints his presidency as a turning point in the development of inequality in the US—together with the ascendancy of Margaret Thatcher in Britain played a powerful role in shaping the economic environment in their respective countries and globally.

However, to simply leave matters there is to subscribe to the theory that history is simply made by powerful and, in this case extreme right-wing, individuals who came to prominence. It completely leaves out any explanation of the underlying processes which created the conditions that enabled them to assume power and of which they were the political expression.

Such an individualist explanation of the rise of what has been called neo-liberal economics completely breaks down when one views the broader global perspective.

After all, one of the most significant turns to the neo-liberal "free market" agenda in the 1980s took place in New Zealand under the Lange Labour government. It transformed New Zealand from being the poster child of social equality under capitalism to one of the most significant expressions of the new global economic order. Likewise, in Australia the Reagan-Thatcher program was carried out under the Hawke-Keating Labor government of the 1980s and early 1990s.

Individual capitalist politicians certainly played a significant role in sweeping aside the political economy of the post-war period, which had seen a trend towards greater social equality, and in imposing the new economic paradigm. But they did not play an independent one. In the final analysis, their actions were the outcome of powerful economic forces that found expression in the political superstructure.

Throughout his presentations, Stiglitz insisted that while economic laws are universal, the growing inequality in the US and especially the amounts seized by the 1 percent are a "distinctly American 'achievement'."

Therefore, the polarisation of American society is not the result of underlying economic laws. Economic laws are universal and the laws that apply in the US operate in other countries as well. But as other countries have not exemplified the same growth of social inequality as has been experienced in the US, the American experience must be the result of political decisions.

Consequently, the argument continues, a new political agenda can be adopted in the US to reverse growing social inequality and establish a fairer and more just society, retaining the foundations of capitalist economy, while other countries can make the necessary political decisions not to go down the "American road."

This last point was the main reason why Stiglitz was lauded by the "left-liberal" milieu in the media, academia and political establishments during his visit. These layers, while noting with growing concern the mounting social inequality in Australia, are desperately trying to prevent the conclusion being drawn that this is a product of the inherent structures of the capitalist economy itself.

Such analyses, they understand, point to definite political conclusions—above all the necessity for the overthrow of the profit system itself. Organically opposed to such a perspective—the rude intervention of the working class into politics would upset their comfortable life-styles—Stiglitz's presentations were music to their ears.

Stiglitz's claim that social inequality is the result of politics not economics and that other countries need not follow America, provided different political decisions are made, would have more chance of taking hold were it not for the fact that ever-widening social inequality is a global phenomenon.

In all the major advanced capitalist economies the same trend is evident. The significance of the Abbott government's budget did not lie simply in the measures themselves, vicious as they were. It produced a political shock because it brought into the open the growing social inequality that has been developing under previous Labor and Liberal governments over the past three decades.

Based on the explicit call to "end the age of entitlement," the budget struck a major blow against the long-fostered illusion that Australia, the land of the "fair go", buffered by its resources wealth, was somehow exempt from the social counter-revolution being undertaken in the US and elsewhere.

Stiglitz's assertion that America does not represent universal trends is further undermined by the situation in all the so-called developing and "emerging market" economies. In Brazil, India and China, to name three of the most prominent, social inequality is rapidly widening. In short, to paraphrase Karl Marx, the accumulation of wealth at one pole, often in fabulous amounts, is everywhere being accompanied by growing poverty and misery at the other.

Stiglitz continually sought to bolster his case that inequality is the result of political decisions by citing the case of Norway. There a sovereign wealth fund, based on oil resources, had enabled different choices to be made enabling a level of social equality to be retained. Norway, like Australia, was sheltered to some extent from the initial impact of the 2008 crisis because of its resources wealth. But Norwegian "exceptionalism" is no more valid than the Australian version. Sweden, it should be recalled, used to be held up as a prime example of the social welfare state until a major banking crisis in the early 1990s.

Furthermore, Stiglitz's attempt to base his perspective on some kind of Norwegian "paradise" crumbles in the face of the events of 2011 in which some 77 people, members of the youth organisation of the Labour Party, were massacred in an attack carried out by a right-wing extremist, an action which, like the massacres carried out in the US, points to a deep social malaise.

Stiglitz's claim that since economic laws apply universally differences between countries must be the outcome of political decisions is fundamentally flawed.

Contrary to his assertions, economic laws and processes are not some kind of external force. Rather, they operate through and within the political superstructure of any given country. This superstructure is, in turn, the product of the country's historical development. This means that while the economic laws of capitalism are universal, they do not assume an identical form in every country but manifest themselves, to use a phrase of Leon Trotsky, "as an original combination of the basic features of the world process."

Stiglitz, of course, does not deny the impact of far-reaching changes in the structure of the capitalist economy on the development of social inequality. In his book, he points to one of the most significant transformations of the past 30 years—the emergence of accumulation through the extraction of rent.

Originally derived from landlordism, rent seeking refers to a situation where, as in the case of the landowner, riches are accumulated not by production and the extraction of surplus value from the labour of workers, but through the appropriation of wealth produced elsewhere in the economy.

Just as the landlord appropriates income, in the form of rent, which otherwise would be available to the capitalist tenant farmer, so rent seeking in the broader economy involves the monopoly ownership of a particular resource to generate an income. This can be in the form of a patent for a pharmaceutical drug, a software program, various intellectual property rights or even a brand name. Rent, which was previously derived only from the private ownership of land, now flows from the monopoly ownership of any economic resource, including, increasingly scientific knowledge—the genetic structure of plants and even human beings.

In addition to rent, there is accumulation through financial speculation in which the possession of money—and the access to further supplies of cheap money as a result of assets and money already owned—enables the accumulation of still further wealth without any production having taken place. Vast fortunes, for example, can be accumulated through the rise of stock prices, even though the output of those companies whose shares are bought and sold at a profit has not increased. Such is the perversity of the present-day economy that companies engaged in the slashing of their workforces often enjoy the biggest increases in their stock prices.

Stiglitz notes that rent seeking and financialisation have become central to the growth of inequality. But this only raises the question as to why in the US and other capitalist economies these processes are now at the very heart of capitalist accumulation.

The answer cannot be found in the inherent propensity of capitalist firms to create monopolies and restrictions to boost their profits because, as Stiglitz himself points out, that tendency was apparent to Adam Smith as far back as 1776.

Moreover, how is one to explain the total abandonment of any regulation and controls over the banking and financial system which brought the world to the edge of an abyss in 2008? And even after that experience, the processes that led to it continue. As Stiglitz has remarked, those who drafted the banking legislation of the Obama administration were "either in the pocket of the banks or completely incompetent."

To ascribe such phenomena to a change of mindset on the part of capitalist politicians, which can therefore be corrected if only another mindset is adopted, does not stand up to any critical examination. Such a thesis immediately raises the question, why now? How is it that regulations which applied in an earlier period have now been completely abandoned?

The emergence of parasitism and speculation as the driving force of accumulation and hence social inequality must have its roots in structural changes within the global capitalist system. The new mode of accumulation is not the outcome of political decisions but the product of efforts to overcome the crisis in the post-war economic order that manifested itself in the fall in the rate of profit from the end of the 1960s.

Responding in the way that it always does to a fall in the general profit rate, capitalism underwent a major restructuring beginning in the late 1970s. This involved the globalisation of production to take advantage of cheaper sources of labour, the destruction of industries in the advanced economies, and the rise and rise of rent seeking and financial parasitism as the chief source of profit accumulation. This is what drove the scrapping of the system of controls and regulations that had previously been put in place. The abandonment of regulation culminated in the repeal of the Glass-Steagall Act in 1999. Carried out by the Clinton administration, of which Stiglitz himself was a part, it played a significant role in the financial boom of the early 2000s.

Politics certainly did shape the market. But political changes were driven by and were a response to fundamental and irreversible shifts in the capitalist economy. Developed in an attempt to overcome an earlier crisis of the profit system, restructuring, based on rent seeking and financial parasitism, led to ever-increasing social inequality and created the conditions for a breakdown in the capitalist economy of which the crisis of 2008 was an initial expression.

None of these fundamental questions was addressed by Stiglitz. To have done so would have shattered his assertion that the mounting crisis of capitalism, of which the rise of social inequality to historically unprecedented levels is just one expression, is capable of being resolved through reform.

Moreover, Stiglitz's own observations exposed the bankruptcy of such a political agenda. To base one's perspective on the casual observations of a Warren Buffett, the economic circumstances of the clearly troubled society of Norway, or the prospect of the return of Hillary Clinton in 2016, following the experience with Obama, is truly to be grasping at straws.

His Australian acolytes, who eagerly seized on his "reform" message, in order to promote the illusion that the ousting of Abbott and the return of a Labor-Green government or some other set of capitalist politicians would be a "progressive" outcome, are likewise standing on quicksand.

Powerful economic forces have already dictated the agenda in Australia as finance, based on speculation and parasitism, has become the largest single sector of the economy, eclipsing both mining and manufacturing.

Notwithstanding all the efforts of the "left" and liberal milieu, which gathered around Stiglitz's feet in the course of his Australian visit, this economic reality will shatter their efforts to obscure it, along with their bankrupt "reform" agenda. It will make clearer to ever-growing sections of the working class and the youth that only the revolutionary overthrow of the entire profit system can put an end to the social devastation it is unleashing.