Editorial Introduction: Analysing the GFC

This issue of the *Journal of Australian Political Economy* examines the global financial crisis (GFC) that emerged in 2008-9 and considers the implications and lessons for Australia. This crisis has been widely interpreted as the most profound shock to the capitalist economy since the Great Depression that began in 1929. It has also been described as the first truly 'globalised' crisis.

By focussing on the GFC, this issue of the journal constitutes, in effect, a companion volume to the June 2008 issue that provided analysis of Australia's economic boom 1992-2008. At the time that 'long boom' issue was published, the first signs of the impending financial crisis were starting to emerge, although the impact had not yet been felt in Australia. A number of the featured articles in the journal emphasised structural problems that the boom had masked and the systemic contradictions that had not been resolved. As the boom gave way to crisis, so this journal now follows the 'rhythms of capital' by focussing on the GFC. Like the earlier issue on the boom, this issue on the crisis is also a 'bumper' double-sized edition.

The articles come from three sources. First is the edited transcript of a talk presented by Canadian economist Jim Stanford at the University of Sydney in August 2009. This was the second Ted Wheelwright Memorial Lecture, presented to a large audience and providing an interesting and entertaining analysis of the crisis and the importance of grass-roots education in political economy. Stanford emphasises the contrast between the 'real' economy of productive work in which value is created and the speculative realm of financial legerdemain that accentuates capitalism's tendencies to inequality and instability.

Second is a cluster of articles submitted in response to the general invitation that was published in the last issue of this journal. These are the articles by Thomas Bramble, Harry Perlich, Evan Jones, Therese Jefferson and Alison Preston, and Heribert Dieter. They are 'in-depth' assessments of various aspects of the crisis and the lessons learned (or, more typically, *not* learned by mainstream economists and conservative media commentators).

The third group of articles comprises papers originally presented at a one-day seminar on ‘the GFC and the Australian City’ at Griffith University in Brisbane in August 2009. These include the contributions by Brendan Gleeson, Stephen Horton, Jago Dodson and Neil Sipe, Kurt Iverson, Paul Burton, Ian Manning and Boris Frankel. They are characteristically shorter contributions, reflecting their origins as seminar presentations. They are focussed on issues such as housing, transport, spatial planning and local government, emphasising that the economic crisis is related to the patterns of production, consumption and transportation that structure our lives in an urban society. Steve Keen’s paper also originated from the Brisbane conference, but its macroeconomic focus makes it more akin to the second cluster of articles in its content and style, and it is located earlier in the journal for that reason.

Brendan Gleeson, Stephen Horton and Patrick Troy took responsibility for the primary editorial judgements on this third group of articles and the editors of *JAPE* thank them for this valuable contribution.

How profound has the GFC been? Has it been just a ‘blip’ in the inexorable growth of the economy, particularly here in Australia, where ‘technical’ recession (defined as two or more successive quarters in which GDP falls) has been avoided? The breakout box printed on the opposite page might seem to suggest so. It is an extract from the speech about the GFC given by the Governor of the Reserve Bank of Australia in November 2009. With its talk of ‘economic flexibility’, ‘the relative strength of the financial sector’, ‘sensible management’ and ‘prudent fiscal and monetary frameworks’, it conveys a general complacency about the national/local significance of the GFC. Certainly, the effect of the GFC in Australia has been more muted than in some other countries such as the USA, UK and much of Europe. However, Australia is not alone in this regard: for different reasons, other countries such as Switzerland, Norway, Brazil and Nigeria had relatively favourable experiences too. Crises always have uneven impacts.

> The issue before us is not how to get on to the road to recovery; we are already on it. The question, rather, is how to make sure that the road to recovery will connect to the road to prosperity.
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> Unless we are prepared to accept it has all been an incredible coincidence, we have to ask why things turned out that way. It wasn't just that China returned quickly to growth. Equally important were other factors, including the relative strength of the financial sector, the economy's flexibility and the willingness and scope to change macro-economic policy.
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> Those things were not accidents. Financial resilience resulted from sensible management by financial institutions and careful regulation on the part of the prudential supervisor. For the most part, the non-financial corporate sector was also fairly conservatively managed.
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> Moreover, businesses took a far-sighted view about employment decisions. Given the preceding difficulties in securing labour, they found ways of keeping people on payrolls, even if on reduced hours. They clearly had not only the good sense but also the requisite institutional flexibility to do that, which must say something about the progress that has been made in labour market arrangements during the past couple of decades.
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> And, finally, long-term investments in prudent fiscal and monetary frameworks paid off. A whole generation of policy-makers painstakingly worked to build credibility by making decisions with a long-run perspective.
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> G. Stevens, *Prosperity Isn't Easy*, (extract) also reproduced in *The Australian*, 6.11.2009.

The authors in this issue of *JAPE* seek to tell a more profound story. While they present different views of the GFC, the common element is an emphasis on its deep-seated structural roots and implications. So there should be no complacency, even if the most recent macroeconomic indicators suggest only a mild downturn and that the worst has passed.

What are the structural problems? Steve Keen's article emphasises the cumulative problems of unsustainable household debt. Harry Perlich's piece examines problems of structural imbalance, particularly the 'dual economy' character that exists because Australian states have different economic characteristics. Moreover, as the article by Evan Jones documents, Australia's financial institutions have a lot to answer for – before the crisis, during it and into the future. There are significant international political economic imbalances and tensions too, as Thomas

Bramble's article argues. There has also been a lack of effectively coordinated governmental responses, as Heribert Dieter shows with particular reference to the European situation. Keynesian stimulus measures have been the limited focus of national governments, leaving many of the longer term structural problems unresolved.

The uneven impacts of economic crisis within Australia are also a major concern from a political economic perspective. Therese Jefferson and Alison Preston's article highlights the gender dimension, drawing on recent data on employment trends for men and women.

Understanding the *spatial* inequalities of the GFC is also necessary. The connection between urban problems, macroeconomic problems and balance of payments problems is emphasised in the article by Ian Manning. The articles by Brendan Gleeson and Stephen Horton discuss the importance of temporal and spatial dimensions in the functioning of modern capitalism. Paul Burton looks at the Gold Coast – built on the shifting sands of tourism and property development – to illustrate how economic crisis impacts at the local level. Kurt Iveson's contribution considers how crises fuel the processes of spatial competition but may also generate a cooperative urbanism. Jago Dodson and Neil Sipe highlight the unsustainability of the modern urban economy, a long-term problem that has to be faced irrespective of the resolution of short-term financial instability.

Reflecting on responses and prospects, Boris Frankel draws a distinction between the risk-taking character of governments and businesses and the risk aversion of the general public. Then, to conclude, we reprint an open letter about the GFC which emphasises the fundamental problems arising from orthodox economics education.

These various articles do not purport to cover all angles of the crisis. There is much more to be said about this complacency-shattering situation. Does the GFC signal the end of neoliberalism, as Prime Minister Rudd has implied, and what would that really mean? Does the crisis usher in a new stage of capitalism? Or are we simply to resume 'business as usual'? Future issues of this journal are open for further contributions on these and other themes. Political economic analysis can thereby help us understand and shape the forces influencing our futures.