RESPONDING TO THE CRISIS: WHY GOVERNMENTS AND BUSINESSES GAMBLE BUT THE PEOPLE DO NOT

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Writing during the dark period of the Second World War, Bertolt Brecht (1967: 286) observed that:

> History shows that peoples do not lightly undertake radical changes in the economic system. The people are not gamblers. They do not speculate. They hate and fear the disorder which accompanies social change. Only when the order under which they have lived turns to an indubitable and intolerable disorder do the people dare, and even then nervously, uncertainly, again and again shrinking back in turn, to change the situation.

Contrast the reluctance of people to gamble on radical social change with the high risk-taking business and government gamblers who caused the current world recession and many other socio-economic problems. Governments constantly gamble that voters will not become aware of dilapidated infrastructure or inadequate allocation of capital for essential services until after the next election. Similarly, statutory authorities – either through inadequate policing or informal collusion with the industry sectors they are supposed to police – gamble that appalling corporate 'financial engineering' and commercial property practices, or dangerous production of toxins and other sorts of detriments to social amenities and public health will not come to light in the near future.

Today, the biggest gamble waged by governments and large sectors of business is the gamble that the urgent calls made by environmentalists for emergency action to prevent climate chaos can be ignored, stalled, pared down or deferred to other countries. The more cautious are politicians and business leaders, the higher the future environmental stakes they are prepared to gamble.

During periods of relative political calm or 'business as usual' it is easy for most people to overlook the major political economic gamblers and accept the trivialising label of the electorate as 'punters'. However, it is precisely during major crises, such as the current recession, that the public begin to question government and corporate spin. At the moment there is little evidence that a majority of the electorate in OECD countries have rejected the modified neo-liberal policies advanced by governments and business lobbies to solve the crisis.

Crucially, for the public to reject prevailing government and business solutions to the twin economic and environmental crises, something much more fundamental has to occur. First, mass movements must emerge and a majority of the electorate (not merely handfuls of academics, policy makers and political activists) must be persuaded by a comprehensive debunking of dominant ideas and practices, namely: (a) neo-liberal modes of governance; and (b) the production and consumption foundations of the old carbon economy.

Second, a plausible and feasible set of alternative policy solutions must explain – and reassure mass electorates – how the simultaneous administrative, economic and environmental crises can be overcome within a transitional time frame, while at the same time providing adequate income, jobs and the restructuring of existing urban forms into sustainable lifestyles.

Third, governments in developed OECD countries need to massively raise or harness the additional fiscal resources that are necessary for alternative solutions – despite their ballooning indebtedness. This will be difficult given a prolonged period of low growth or deflation plus the threats to democracy from authoritarian populist parties.

Fourth, while OECD countries require major structural reforms, many developing countries face grim scenarios due to their very limited capacity to deal with glaring social inequalities and the debilitating consequences of prolonged recession or stagnation. It is clear that the pre-recession 2005 Millennium Development Goals, adopted at Gleneagles and aiming to cut poverty by 2015, will be substantially under-achieved.

Also, it is sobering to compare pre-recession estimates of future energy and social problems in developing countries with post-2008 global finances following the impact of financial bail-out costs on G8 countries' budgets. For example, the Gleneagles Communique estimated that $US16 trillion would be needed to transform world energy sectors to renewable sources in the next 25 years. Yet, the 2006 *OECD-FAO Agricultural Outlook 2006-2015 Report* also assumed that oil prices would fall to $US40 per barrel. This is wildly unrealistic, given the spike in 2007-08 oil prices and brokers currently factoring in a price of $US95 to $US100 per barrel by the end of 2010. The *UN-Habitat's State of the World's Cities Report 2006/2007* states that, by 2030, 5 billion people will live in cities of which 4 billion will be in developing countries. Within 20 years it is projected that Africa's urban population of 748 million (largely slum dwellers) will be greater than Europe's total population (UN-Habitat 2006). The scale of social problems and global growth demand for energy will be phenomenal. Unfortunately, the feeble response of the G20 to the plight of developing countries guarantees continuing mass loss of life and shocking poverty for hundreds of millions of people.

Given the scale of the global crisis and the prospect of prolonged stagnation/low growth rates, it is necessary to ask: if there is no quick return to 'business as usual', what is the tipping point that will lead a majority of people to swap places with governments and businesses and become social change gamblers? Part of the answer is to be found in how the crisis has been explained to electorates and how a range of governments, parties, social movements and business groups have responded to the current crisis.

Responses to the Crisis

A mountain of media, government and academic commentary has posited a false dualism between the financial crisis ('Wall Street') and the 'real economy' ('High Street'). This dualism not only fundamentally ignores the inseparable interconnectedness of financial institutions to all other 'real economy' production, distribution and consumer processes, but ignores the very size of financial sectors in terms of 'real economy' employment, presence on equity markets and their roles as driving forces of capitalist economies (Frankel 2001).

Despite the revelations of the past two years, the larger international publics are still unaware of how dramatically close the US economy – and possibly the world economy – was to profound chaos, or total collapse. We now know from recent US Congressional testimony that a collapse of the US economy was only miraculously averted – precisely between 11a.m. and 2.p.m. on September 18th 2008 – when Treasury and Federal Reserve officials suspended financial transactions, thus preventing the liquidation of $US5.5 trillion from the banking system.

Similarly, the public is aware of the gambling financial engineers who cost investors trillions of dollars and rendered millions of mortgagees homeless, but they are less aware of the actual size of these losses and their impact on future budget expenditure and taxes. For example, the IMF's April 2009 global financial stability report estimates the financial sector write downs were at least US$4,400 billion, or 37 years of IMF official development assistance at 2008 levels. It also estimates that governments have already provided $US8,900 billion of financing for banks, but that the refinancing gap (rollovers of short term debt and maturing long-term debt) will rise from $US20,700 billion in 2008 to $US25,600 billion in 2011(over 60% of banks' assets).

By comparison, the impact of the recession on public debt and budgets (so far) remains manageable in most countries. Nevertheless, Gordon Brown's UK government has designated $120 billion worth of public expenditure cuts – a severe constraint on any alternative plan to create new sustainable cities and jobs for the future. The UK's budgetary position may even be better than the public finances in Germany, Italy, Spain and other EU countries. Australia's indebtedness and budgetary deficits are very mild compared with most other OECD countries, even though the political Right is seeking to create fear of unsustainable debt.

The ability of international banks to finance pre-2007 levels of private investment and growth remains questionable. As large net borrowers of foreign capital, Australian businesses may find it difficult to fund high levels of investment ventures with risk assessments of BBB and sub-BBB in constrained global investment markets (given the failure of various international A to AAA-rated ventures to raise sufficient competitively priced funding). This may be a blessing if it slows or prevents ugly and inappropriate urban commercial property development. On the positive side, the tightening of private capital liquidity also constitutes a domestic opportunity to rethink existing neo-liberal public and private sector capital raising and expenditure priorities.

Sadly, there is very little interest from Australian Federal and State Labor governments to explore post-neo-liberal public policies and fiscal strategies. On the contrary, with a few minor exceptions, neo-liberalism thrives – from Premier Bligh's privatisation agenda in Queensland and Brumby's green light to developers in Victoria, to Gillard's national education and industrial relations policies. At the helm, Kevin Rudd (2009) prematurely believes we are witnessing the end of neo-liberalism: he conveniently ignores the deep-seated commitment to neo-liberal fiscal and monetary strategies that are daily revealed by his own Federal Ministers.

Like State Labor governments, the Rudd government is poll-driven and heavily geared to an obsolete carbon economic model. Crucially, the social amelioration policies in areas such as housing and social inclusion are largely excluded from prominence in cabinet. The latter are overshadowed by a ministerial governance structure that reflects traditional rightwing Labor foreign and military emphasis on the US alliance (see the 2009 Defence White Paper) and an eagerness to please corporate interests. Zealously defending the mining and agribusiness sectors, Rudd's policies are little different to Howard's anti-green agenda (leaving aside the token signing of the Kyoto treaty). As a government conducting war (with two ministers and a parliamentary secretary in Defence), no separate minister for education, little emphasis on urban renewal, poorly targeted stimulus packages largely geared to conventional consumption spending, and an infrastructure budget heavily favouring road transport, this is a government that is not only conservative but, like the State governments, very neglectful of the massive environmental and economic problems confronting the majority of people living in urban Australia.

Non-government Responses

The trade union movement – the largest social movement in Australia - has largely confined itself to jobs and working conditions, thus rendering itself almost irrelevant to the broader political struggle over public finances and the future structure of Australia's political economy.

Lacking sufficient analysts capable of formulating macro-economic alternatives that will challenge Rudd's neo-liberalism, the ACTU is now supine and dependent on Labor governments. Accordingly, despite the rhetoric of co-operation, Rudd and his senior Ministers – especially ex-ACTU leaders - treat it with contempt. The recent 2009 ACTU Congress was silent on crucial issues, such a new public financial architecture, new manufacturing industries, and the urban services and governance structures needed in the coming decade. It is true that the ACTU and Australian Conservation Foundation (ACF/ACTU 2008) promote their *Green Gold Rush* objective of achieving 847,000 green jobs by 2030. Welcome though this may be, a maximum of about 40,000 new jobs per year is pitifully inadequate in an economic context where there may be approximately 1.8 to 2 million people unemployed and underemployed in 2010.

There has been no published Australian study to this date which documents in detail what is the scale of urban restructuring necessary in the next two decades to create the basis for sustainable employment in the transition to a low or net zero carbon emissions economy. Unfortunately, some of the main opponents of a new low-carbon economy are conservative industry unions bolstering the Federal and State Labor governments.

As for green movements, despite the massive global economic crisis they remain largely bereft of comprehensive anti-hegemonic fiscal and economic proposals — policies that are necessary to explain to the electorate how a transition to a low and post-carbon economy can be funded and constructed. Certainly, they have made substantial calls for all kinds of sustainable transport, energy and infrastructure polices, but these positive ideas are poorly linked to tax, social security, trade and other regulatory, investment and alternative industry practices.

It is not just labour and green social movements that are relatively silent on how to formulate and construct an alternative sustainable economy in the coming decades. Since the onset of the crisis it is difficult to detect any major reappraisal of neo-liberal macro-economic and social policies advocated by Australia's leading business peak bodies. On the contrary, they continue to push for cuts to business taxes, increases in regressive GST and variations of *WorkChoices*. The Liberal Party has learnt nothing from the global debacle.

There is also little or no public debate in Australia of the 2020 scenarios that leading defenders of capitalism such as the World Economic Forum (WEF) produce. For example, the WEF 2009 report on the future of the global financial system floated four possible scenarios for the next 11 years: (a) re-engineered Western centrism; (b) fragmented protectionism; (c) financial regionalism; and (d) rebalanced multilateralism (WEF 2009). The least preferred scenario is a fragmentation of financial sectors and economies behind protectionist lines. The Report also worries about a resurgent Atlanticism of the US and EU, as well as the deepening of regional financial and economic divisions between the US, Europe, Asia and the BRIC countries. Clearly, its preferred model is a Bretton Woods Mark 3 that fuels global growth in a rebalanced multilateral new world financial system. Kevin Rudd and Paul Keating favour a Bretton Woods Mark 2 model that incorporates China and India into leadership roles in the IMF and other world bodies. However, the inclusion of newly emerging powers does not in itself insure against continued economic regionalism or prevent another, and possibly far worse, global crisis. Hence, the WEF hopes for a more genuinely multilateral Mark 3 global financial architecture which would include new crisis-preventing stabilising mechanisms, greater regulation, and the upgrade of the International Bank for Settlements as the global banker of last resort.

Like many other pro-market policy makers and economists dreaming of a state of equilibrium and foolproof crisis-management, the WEF's goals for 2020 look almost certain to be undermined by deep-seated national interests, industry lobbies and a range of political conflicts. Significantly, the WEF scenarios inadvertently highlight how the majority of political and business leaders across the world still pursue short-sighted goals within narrow national or regional frameworks.

Australia lacks regional protection such as that afforded by membership of the EU and other blocs. Bi-lateral trade pacts are not an adequate substitute. For example, the Howard government committed to the Australia-US Free Trade pact because it claimed the US was Australia's largest economic partner, but this was only true if one included financial transactions rather than just merchandise trade. Given the impact of the current crisis on US financial institutions, Australian business will be forced to seek other sources of capital inflow and strategic alliances. As a heavily traded currency, there is great risk that the Australian dollar could face very high volatility in the next decade, especially if its alignment to the US dollar proves untenable and/or new global carbon emissions pacts seriously affect commodity exports. In the WEF scenarios, with which regional bloc would Australia be forced to align itself in the absence of a new Bretton Woods Mark 3?

Given the lack of consensus within the G20, it is likely that fundamental reform of global financial institutions will be postponed. Domestically, there is very little prospect that neo-liberal social and economic policies will be abandoned within the next Australian electoral cycle unless there is a sudden and dramatic increase in political mobilisation from a Left and eco-social perspective.

As for climate change, even strong opponents of neo-liberal policies, such as the Australian Climate Emergency Coalition, are divided. Many believe that zero carbon emissions by 2020 can be achieved with little change to everyday life and the economic system (*e.g.* by following Al Gore's ten-year renewable energy targets, implementing biochar sequestration and so forth). Others consider it is an illusion to believe that urban life and food production can continue former growth rates with just minimal ecological modernisation techniques.

Prospects

The present crisis has thrown up a whole range of concerns about macro-economic and environmental policy direction among anti-neo-liberals. Take the observation made by oft-cited urban political economist David Harvey:

> …in the last 30 years an immense amount of the capital surplus has been absorbed into urbanization: urban restructuring, expansion and speculation. Every city I go to is a huge building site for capitalist surplus absorption. This way of absorbing capital surpluses has got more and more problematic over time. …Throughout the history of capitalism, the general rate of growth has been close to 2.5 per cent per annum, compound basis. That would mean that in 2030 you'd need to find profitable outlets for $3 trillion dollars. That's a very tall order…Capitalism is running into serious environmental constraints, as well as market constraints, profitability constraints (Harvey 2009).

While I think that Harvey presents a powerful case, it could also be argued that capitalist businesses may overcome (for at least 15 to 20 years) significant surplus absorption problems by heavily investing in ecological modernisation. In Australia alone, the transformation of cities – renewable energy, retro-fitting and constructing new sustainable buildings, public transport, decentralised water facilities and many other proposals - would conservatively cost more than $600 billion over a ten year period. Whether governments provide the carrots and sticks to facilitate this redirection of capital is a political question rather than an economic one. Whether capital surpluses could be profitably absorbed after the initial 20-year greening of cities is a separate question.

Having read and heard many radical prognoses over past decades about unsustainable debt levels, the impending crisis-collapse of capitalism or, conversely, Panglossian pro-market predictions of endless growth, one is reluctant to assert with any confidence the likely character and outcomes of the present crisis. Will we remain with Brecht in dark years like those of the Second World War when he believed the people were reluctant to gamble? Or will the current generation embrace the need for a massive reconstruction of obsolete urban social and political structures in a similar spirit to an earlier generation that embraced the urgent necessity of post-war reconstruction?

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