THE INSTITUTIONAL INTRACTABILITY OF RECESSION

Geoff Dow

> I'm an economic conservative, committed to budget surpluses and the independence of the Reserve Bank.
>
> *Kevin Rudd, Election pamphlet November 2007*

Economic rationalists are never likely to apologise for the thirty years of unemployment we have just endured. For the past three decades, liberals and their bureaucratic and academic acolytes engineered a utopian experiment – effecting enormous dislocation now spanning generations. Publicly presuming that it would wean the nation away from industrial and social protectionism, politicised wage-fixing, the encroachment of taxation-financed provision, and market-displacing state interventions – the very constituents of a modern economy's evolutionary potential – the liberals recklessly created a world that ignored a century or more of considered social science understandings of the responsibilities of society to itself. Beyond this disregard, they have warped, in many instances, the bases for understanding where we are now. And along with impoverished notions of the causes of prosperity and well-being, affluent societies have been bequeathed undeveloped material and institutional foundations for principled or deliberated responses in the future.

More to the point of this article, policy options seem to have been prematurely truncated when they need to be more determined. Liberalism is instated, as the quotation above illustrates, though the political dimensions of economic problems are becoming more intractable; policy elites who transmit an ethic of non-engagement to the rest of the population are increasingly unable to recognize the nature of crisis.

The discrepant contributions to this special issue affirm that there is much still to be learned about the cycles of economic and social development – the boom-recession cycle. In this article, I propose to re-examine classical political economy and its modern anti-liberal derivatives in the specific context of Australia where hubris and unreflective thinking threaten to reproduce the abrogations of the 'lucky country'. We can question attitudes to contemporary economic management by re-visiting key ideas of Marx, Keynes, Polanyi, the post-Keynesians and the institutionalists. I hope to illustrate some peculiarities of Australian capitalism in such a way that those who still believe political and policy possibilities exist can re-imagine our collective institution-building responsibilities.

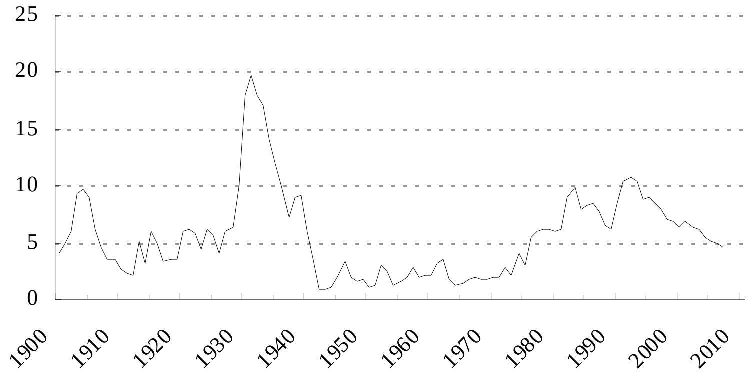
Growth and Recession

The decline in unemployment since the early 1990s is not a discrete phenomenon (see Figure 1). If, instead, the full context of recession and structural change spanning three decades is made the focus of enquiry, the 'miracle economy' takes on a different hue. Part of the interpretive problem for political economists is that conventional understanding of the boom-slump cycle has been hijacked by a 'definition' in which two successive quarters of 'negative GDP growth' demarcate recession while two or more successive quarters of positive growth are said to constitute a boom. By this metric, Australia experienced boom conditions when unemployment was over 10 percent; and long-term unemployment almost never officially registers as a downturn! Even now, in 2008, with continuing mass unemployment – over 4 percent – that has continued for more than thirty years, some of the economic conditions associated respectively with improved and worsened well-being are being wrongly identified.

Undeniably, official unemployment in Australia has been steadily declining since 1992-93 when, according to OECD data, it peaked at 10.6 percent (OECD 2007a, pp.251-252).[1]

1 Note that if underemployment and under-utilisation are reckoned, the current unemployment rate more than doubles (ABS 2007, p.177.)

Figure 1: Unemployment in Australia Through the Twentieth Century (%)



Sources: T*reasury Economic Roundup Centenary Edition 2001*, using RBA and ABS data; OECD *Economic Outlook* (various editions) since 1974.

Similarly, economic growth has been comparatively impressive, above the OECD average all through the 1980s, 1990s and the 2000s (see Table 1; OECD 2001), though not prior to the 1980s. Figure 2 also shows that although GDP growth has been declining, decade by decade, since the 1960s, it remains close to its 100-year average of 3.4 percent. [2] Of course, it is growth rates in *per capita* GDP that normally give a more accurate reflection of changes in living standards, particularly in high-immigration societies. Australian per capita growth has tended to be about half the figure for overall GDP growth, so the potential distortion is considerable. Table 1 presents evidence of a stark disparity: for Australia, total GDP growth is well above the OECD average, but on a per capita basis, it is currently well below.

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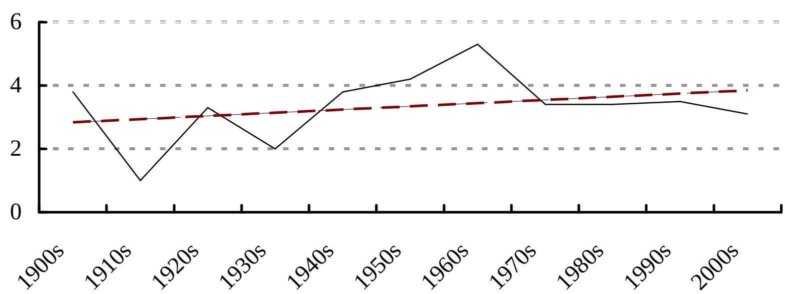
2 Although Figure 2 reveals an upward trend in the growth rate for the century, it is likely that, with maturity, the figure for the foreseeable future will actually continue to decline, as a higher proportion of unnecessary or indulgent activity, with fewer and less extensive multiplier effects, continues to characterise the advanced economies.

The point to note, however, is that growth and unemployment are not closely related. For the first thirty years of the recession, since the mid-1970s, Australia experienced simultaneously above-average growth with above-average unemployment. This was a characteristic of some other countries too (Canada and Italy). Therefore, growth rates (the ones usually cited are for GDP) are not analytically useful indicators of a boom period (Tables 1 and 2; but see also the discussion in Boreham, Dow & Leet 1999, pp.64-71).

We need to acknowledge that high growth does not necessarily prevent or lower unemployment. Similarly, unusually low growth does not presage an economic crisis – it is sometimes compatible with full employment, as in Sweden and Switzerland in the first decades after 1974. We need to acknowledge that there can be recessionary growth, jobless growth, growth without the conditions for societal decency, or what could be referred to as 'decadent affluence' (Dow 2006, p. 148). We need to revise our conception of recession to more faithfully accord with Marxian, Keynesian and institutionalist understandings which place the emphasis where it belongs – on the normal processes of market-induced structural change.

Figure 2: GDP Growth (%)
Australia 1900-2000



Note: Century average was 3.4%

Sources: *Treasury Economic Roundup Centenary Edition 2001* and OECD *Economic Outlook* no.81, June 2007, p.239.

Table 1: GDP Growth in OECD Economies
(Yearly Percentages Averaged for Each Decade)

1970s	1980s	1990s	2000s (2001-2008)	2005-06 (per capita)
Kor 8.6	Kor 7.5	Ir 8.3	Slov 5.9	Slov 8.3
Is 7.0	Lux 4.3	Kor 5.8	Ir 5.2	Cz 6.2
Mex 6.6	T 4.0	Pol 5.6	T 5.1	Pol 5.9
H(E) 6.0	J 3.8	Lux 5.0	Kor 4.6	SF 5.3
Port 5.8	SF 3.6	Aust 4.2	Cz 4.4	T 4.8
J 5.3	Aust 3.4	Slov 4.2	H(E) 4.2	Kor 4.7
C 5.0	Port 3.3	C 3.8	Pol 4.2	Ir 4.7
T 5.0	Is 3.2	SF 3.8	H(U) 3.9	H(U) 4.2
Ir 4.8	Ir 3.1	N 3.8	Lux 3.9	H(E) 4.2
N 4.8	USA 3.0	T 3.8	Sp 3.3	S 4.2
Sp 4.6	C 2.9	NZ 3.8	Is 3.2	Mex 3.6
Ö 4.2	OECD 2.8	Is 3.7	Aust 3.1	Sp 3.6
SF 4.1	Sp 2.8	H(U) 3.5	S 3.0	OECD 3.4
OECD 4.1	N 2.7	Mex 3.4	SF 3.0	B 3.1
USA 4.0	UK 2.4	USA 3.4	NZ 2.9	Ö 3.0
F 3.9	F 2.4	NL 3.4	Mex 2.6	DK 3.0
I 3.7	I 2.4	UK 3.2	UK 2.6	D 2.9
B 3.7	B 2.2	Sp 3.1	C 2.6	UK 2.6
Lux 3.6	S 2.2	Port 3.0	USA 2.5	NL 2.6
Aust 3.4	Mex 2.1	OECD 3.0	N 2.5	CH 2.6
NL 3.4	Ö 2.1	DK 2.9	OECD 2.4	N 2.5
D 3.2	CH 2.1	S 2.8	Ö 2.0	J 2.4
UK 2.9	D 2.0	Ö 2.6	B 1.9	USA 2.4
NZ 2.8	NL 2.0	H(E) 2.5	N 1.8	I 2.0
DK 2.6	NZ 2.0	B 2.3	J 1.7	C 2.0
S 2.1	DK 1.4	Cz 2.3	F 1.7	F 1.7
CH 1.5	H(E) 0.8	F 2.0	CH 1.5	Aust 1.4
		D 1.8	D 1.4	NZ 1.1
		I 1.6	DK 1.4	Port 0.9
		CH 1.4	Port 1.2	[World growth (per capita): 2.8%]
		J 1.1	I 1.1	

[Note the following abbreviations: Austria: Ö; Belgium: B; Czech Republic: Cz; Finland: SF; France: F; Denmark: DK; Germany: D; Greece: H(E); Hungary: H(U); Iceland: Is; Ireland: Ir; Italy: I; Japan: J; Korea: Kor; Norway: N; Luxembourg: Lux; Sweden: S; Switzerland: CH; Slovak Republic: Slov; Turkey: T.]
Sources: *OECD Historical Statistics 1970-2000*, 2001, p.48 (cols 1, 2 & 3);
OECD Economic Outlook no.81, June 2007, p.239 (col. 4) and
World Development Report 2008, p.334 (col.5).

Table 2: Unemployment (%) in OECD Countries

1970s	1980s	1990s	2000s	1974-2004	2007-2008
T 7.3	Sp 17.5	Sp 19.1	Pol 18.4	Sp 13.2	Slov 10.9
Ir 7.0	Ir 14.0	SF 11.6	Slov 18.2	Ir 9.6	Pol 10.5
I 6.7	B 11.1	Ir 11.4	Sp 10.6	I 9.1	T 9.7
USA 6.5	I 9.9	I 11.2	H(E) 10.4	B 9.1	F 8.2
C 6.5	NL 9.8	B 11.2	F 9.2	F 8.6	Sp 8.2
Port 4.3	UK 9.7	F 11.0	SF 9.0	C 8.3	H(E) 8.0
Sp 4.2	C 9.3	H(E) 9.8	I 8.7	SF 7.4	H(U) 7.6
Kor 4.1	F 9.1	B 9.2	D 8.5	UK 6.7	Port 7.4
B 3.9	DK 8.1	Aust 8.4	Cz 8.0	D 6.6	B 7.3
F 3.7	T 7.6	UK 7.9	B 7.7	Aust 6.6	SF 7.6
OECD 3.5	Port 7.3	D 7.8	C 7.2	DK 6.6	D 6.6
DK 3.5	USA 7.2	NZ 7.7	OECD 6.7	NL 6.5	Cz 6.3
UK 3.4	Aust 7.2	T 7.4	H(U) 6.2	OECD 6.4	I 6.2
Aust 3.4	H(E) 6.6	S 7.4	Aust 6.0	Port 6.3	C 6.1
NL 3.3	OECD 6.6	OECD 7.4	Port 5.6	USA 6.2	OECD 5.6
SF 3.3	D 6.1	DK 7.3	S 5.5	NZ 4.5	UK 5.5
H(E) 2.4	SF 4.8	NL 5.9	USA 5.2	S 4.1	Ö 5.3
S 2.2	NZ 4.5	USA 5.6	UK 5.0	Ö 3.6	USA 4.7
D 2.1	Kor 3.8	Port 5.4	DK 4.9	N 3.5	Aust 4.6
J 1.6	Ö 3.3	Cz 4.8	J 4.9	J 3.2	S 4.6
Ö 1.5	N 2.8	N 4.7	NL 4.8	L 2.0	Ir 4.3
N 1.5	S 2.7	Ö 3.8	Ir 4.4	Is 1.9	NZ 4.2
NZ 1.0	J 2.5	Is 3.5	Ö 4.3		L 4.0
Is 0.5	L 1.3	Kor 3.3	N 4.1		Mex 3.8
L 0.2	Is 0.7	J 3.2	Kor 3.8		J 3.7
	CH 0.6	CH 3.1	CH 3.6		DK 3.5
		L 1.9	NL 3.5		Kor 3.4
			L 3.1		Is 3.4
					NL 3.3
					CH 3.1
					N 2.7

[Note: current unemployment rates are worse than for the 1974-2004 period in Portugal, Finland, Austria, Sweden, Luxembourg, Japan and Iceland; two-thirds of countries recorded improvements.]

Source: *OECD Historical Statistics 1970-2000* (2001), p.42; and *OECD Economic Outlook* 81, June 2007, p.178

Structural change in the economy has always caused cyclical downturns. Industries decline and economies change often without compensating productive developments or alternative sources of affluence, or at least without the right location or timing. These circumstances can legitimately be referred to as crises or recessions not just because of the economic and social disruption that accompanies them. Crisis is an appropriate word because the economy typically 'recovers' on terms quite unlike those pertaining prior to the disruptions to accumulation (different industries in different locations). Until recently, most traditions in political economy acknowledged the destructive dimensions of 'creative destruction'. If we've been inveigled into adopting the ad hoc journalistic view, that crises come in 'quarters' rather than in decades, we have also downgraded structural conditions from our repertoire of explanations.

While there is legitimate disagreement about when a slump ends and a boom begins – the peak of a boom is the beginning of a downturn and the trough of recession is the beginning of the next upswing – I am proposing that we refrain from interpreting the falls in unemployment around 1980 and 1990 as booms. Since high rates resumed immediately thereafter, they are more properly regarded as aberrations in the 'long recession'. Nonetheless it is not unreasonable to see the 2000s as gradually marking a transition from the slump and presumably the beginning of a long upturn.[3] This could well become a global phenomenon, with Angus Maddison expecting higher growth in the rich countries for the next quarter-century, albeit at a lower level than in the 'rest of the world' and with the dynamism shifting to Asia (2007 pp.335-340).

3 An anonymous reviewer sees this claim as courageous and speculative; it is certainly a postulation. However, it is central to my overall argument: that the rich countries have just *come out of* a 30-year period of unemployment and recessionary-restructuring. The corollary is that 'improvement' is now occurring – evidenced by lower unemployment in most OECD countries (compare cols 5 and 6, Table 2), the end of the period of worsening inequalities (Stilwell & Jordan 2007) and the, yet-unknown but expected-to-be-positive, effects for the world economy of China's continuing development.

Cycles of Development

Marxist political economy has a fourfold conception of crisis, where capitalist accumulation can be disrupted by falling profits, overproduction/ underconsumption, sectoral disproportionality and the contradictory role of the state. Each of these potential contributors interacts with the others. For example, overproduction leads to falling profits in key sectors, which, if sufficiently widespread, can constitute a generalised crisis of profitability. Falling profits, through whatever cause, including class conflict which affects the wages/profits share, may precipitate reactionary responses from the state which the spokespersons for capital may celebrate as having the power to restore ‘normality’, though they may in fact worsen what these days is called ‘economic performance’. Without sectoral planning or industry/investment policy, the markets sends the wrong signals to capital (urging more investment when curtailment would be judicious; or less when more is warranted) and the liberal state tends to be accommodative. For most of the current recession (since 1974), excess production has characterised most branches of production, worldwide (Crotty 2002); while underconsumption, insufficient income to purchase all that is produced, can be a cause and a consequence of macroeconomic disruption. All are aspects of the general contradictions of a capitalist economy, that is, underlying and ineradicable conditions, that can be infringed only by changing the capitalist nature of the system. Though it naturally deplores the economic ‘adjustments’ endured by the population in times of crisis, Marxism has been reticent on the question of progressive policy options – though I don’t think it needed to be.

Keynesianism has obviously tended to be less pessimistic about the capacity of the polity (the state) to engage unorthodox, even experimental, methods to keep investment levels sufficiently high to allow full employment. Though most of the national Keynesianisms after 1945 were stillborn, there is no doubt that ‘investment boards’ (to socialise private investment decisions)[4] and corporatist arrangements (to

4 There are many ways to bring investment and disinvestment under social control – Sweden’s counter-cyclical investment funds, Austria’s innovative use of public enterprises in key sectors, Japan’s close corporate-government links which

expand the class base of the deliberations) have been effective at moderating the liberals' acceptance of, and indifference to, industry decline. However, more new political institutions needed to be forged, Michal Kalecki argued, not only to control investment but also to control the conflict over income distribution that caused inflation in the stagflation years, and to usurp the market elements of the labour market. These three institutional challenges never really appeared as a political programme – not even in social democratic Scandinavia where the ground was fertile – but variations on such proposals to prevent the effects of cycles from flowing through to populations were ever-present in policy discussion and academic writing (Dostaler 2007). Keynesians insist that they have not lost their cogency (Dow 2001; Stilwell 2006, pp.242-244).

One reason for the preservation of interventionist hope is the one given by Karl Polanyi – that if people are subjected to society-destroying market processes (as with recessionary dislocations), they revolt. Another is that an enduring moral basis for seeing the market as a 'good servant but a bad master' persists in religious social thought which has had its own stake in economic development debates for a least a century and probably longer. And, as we know, some politicians notionally subscribe to such views (Rudd 2006).

Adherents to the 'social economy' tradition (together with economic sociologists and writers on 'social capital' who accept that economies are always 'embedded' in conditions such as education and training arrangements whose origins were not strictly economic) appear to be intellectually stronger now than they have been for a century. The effects of fluctuations in economic activity are proper matters for social and political calculation, and market processes ought to be violated.

The post-Keynesian and institutionalist traditions share many of their policy-making concerns with those mentioned above, including conservative traditions which celebrate the legitimacy, desirability and inevitability of politics, including politicisation of the economy. Both

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channelled funds to key sectors – so we don't need to be too prescriptive in a discussion that is attempting to make the general point that, while some attempts (Britain's nationalisations) have failed, the principle will always warrant revisiting.

concede that crises play a role in wealth-creation. However, they are unlikely to agree that the prime orientation of policy should be to facilitate market modes of adjustment. In other words, post-Keynesians especially argue that knowledge of how economies work has been distorted by orthodox and formalistic methods, unreasonably prioritising liberal solutions. They are inherently inter-disciplinary (King 2002, chs 9 & 11).

The institutionalists add that the (unplanned) evolution of modern economies is away from anything that can be depicted by the market model (for example, bigger government, more complex and collusive forms of governance, less individualism, more 'networked' entrepreneurialism and more 'societalisation'). Political possibilities are constantly being unearthed – discovered, not willed, according to Jessop (2002). It's not that the reality of recessions is denied but that their unwanted aspects ought to eliminated so far as possible. Evolution therefore results in 'emergent properties', new features of complex economies which could not have been foreseen by logical enquiry and which confirm a form of downwards causality (Hodgson 2000). More possibilities for political control of the economy emerge in wealthy societies than could have been imagined by liberalism (and possibly Marxism).

The political economy of crisis, therefore becomes an enquiry not into what the causes are but of whether societies and polities are able to intervene in the public interest. Marxism and Keynesianism have been politically and methodologically incommensurate but not completely discrepant on the cause of crises. Marxian analysis, of course, integrated an awareness of class-based resistances to political action, and became fatalistic. Kalecki bridged the two critical traditions, retaining Marx's ambivalence about the new political institutions capitalism would need for sustainable full employment (and capital accumulation). The disposition of the social economy thinkers kept alive debate over, and conservative opposition to, liberal reforms, while perhaps under-appreciating liberal hostility to politics. All three contribute something to critical understandings of booms and slumps.

Industrial Decline and Modes of Regulation

The same global downturn has wrought differential impacts on different economies. Recessions (and cycles of development) produce their effects through characteristic 'modes of regulation'.

All three economies depicted in Figure 3 have experienced de-industrialisation. In Britain, the original 'workshop of the world' sustained very high levels of manufacturing employment and activity during the nineteenth century and well into the twentieth. Note, however, that the contribution of manufacturing to employment was higher than the contribution to GDP, indicating that manufacturing was relatively inefficient, until the Thatcher years. Thereafter manufacturing employment fell much more quickly than manufacturing production, a sign not only of recessionary downturn after 1974 but of Britain's ruthless management of it. Sweden, by contrast, industrialised much later, essentially during the second world war. Its industrial decline has been less dramatic than Britain's and its manufacturing employment was more efficient than Britain's until the current recession. It should be noted that Sweden had developed a mode of regulation explicitly aimed to maintain the economic importance of industry, for example, by using high wages to force productivity improvements upon the private sector (see Erixon 2007).

In Australia, however, the decline was dramatic in both manufacturing employment and in the sector's contribution to the total economy. In the later stages of the recession (the 1990s) manufacturing became somewhat more efficient, a departure from its entire history. As with the other two cases, the effects of the mode of regulation are evident. While the social settlements of the post-federation period and the postwar period were dismantled (that is industrial protection, industrial arbitration and 'Fordist' commitments to social cohesion, consumer affluence and equality) manufacturing declined more emphatically than anywhere else in the developed world.[5]

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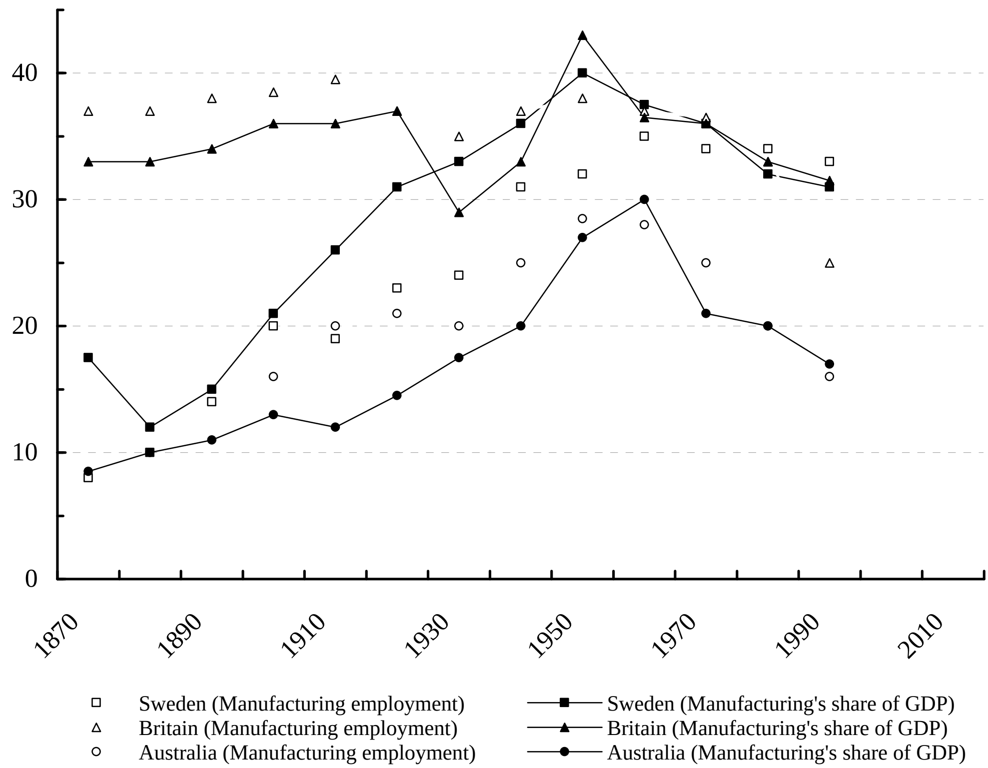
5 In the anglophone world, responsibility for de-industrialisation has been partly an error of omission, partly of commission: the former was failure to build political institutions able to anticipate the need for industrial upgrading; the latter was the

Figure 3: Manufacturing Activity Since 1870 in Britain, Sweden And Australia – Contributions to Total Employment and to GDP



Sources: Angus Maddison *Dynamic forces in capitalist development: a long-run comparative perspective* (Oxford: OUP, 1991); Ingvar Svennilson *Growth and stagnation in the European economy* (Geneva: United Nations Commission for Europe, 1954); and *OECD Economic Outlook* (various issues since 1980s).

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active sponsorship of a worldview in which industrial decline was thought not to matter.

A topical aspect of Australia's recession-recovery phase seems to be that, as in a majority of OECD economies, labour productivity increases have dropped in the 2000s. This may be merely an artefact of the increase in employment[6].

The data is presented in Table 3. The attempts being made to transform the mode of regulation here and elsewhere (Ryner 2007) may be responses to official perceptions of a productivity crisis, as public expenditures on economic affairs and subsidies to industry contract generally (Obinger & Zohlnhöfer 2007).

Table 3: Labour Productivity in Australia and the OECD
(Yearly Percentages Averaged for Each Decade)

	1980s	1990s	2000s
Australia	0.9	2.1	1.0
OECD	1.7	1.5	1.6

Note: Labour productivity declined in 20 out of 30 OECD countries from the 1990s to the 2000s.
Source: *OECD Economic Outlook* no.81, June 2007, p.250.

A perpetually pregnant question is whether productivity decline should be seen as a policy problem. We would expect rich societies to desire, and be able to afford, ever-higher levels of 'unproductive activity' in both the private and public sectors. We spend more than ever on health-care for which there is fairly little productive pay-off; similarly for restaurant food and myriad other non-essential services which exist mainly because they contribute to civility and we can bear the costs. The fact that almost all rich countries have experienced low productivity (along with low growth and high taxes) seems to confirm this aspect of affluence.

6 As is well known, as the proportion of the population in employment expands, more lowly-productive (perhaps less-skilled) workers enter the workforce, lowering average labour productivity; furthermore, in wealthy societies more low-productivity service sector activity now comprises the economy. This is still socially desirable, but not immediately 'productive'.

Nonetheless, although the increase in services employment (industrial decline) has been universal during the recession (see Table 4); manufacturing in Australia, from a very low base, fell fastest and furthest. This may constitute an Australian peculiarity about which critical concern is genuinely warranted.

Table 4: Manufacturing Decline in 20 OECD Countries 1974-1995

(Manufacturing Employment as % Total Employment in 1995, as a Ratio of Manufacturing Employment as % Total Employment in 1974)

Country	Ratio
Korea	1.35
Denmark	1.04
Portugal	0.92
Ireland	0.90
Finland	0.84
Japan	0.83
Italy	0.80
Germany	0.75
Spain	0.73
Canada	0.71
New Zealand	0.70
USA	0.68
Austria	0.69
France	0.67
Sweden	0.67
OECD Average	0.67
UK	0.64
Norway	0.63
Netherland	0.61
Switzerland	0.59
Australia	0.54
Industrial Employment	
Australia	36% (1970) – 22% (2000)
OECD	31% (1970) – 27% (2000)
Services Employment	
Australia	56% (1970) – 73% (2000
OECD	63% (1970) – 66% (2000

Source: *OECD Historical Statistics 1960-1995*. Paris: OECD, 1997, p.43.

Delivering a Liberal Recession

Liberals and policy elites expend enormous effort in distorting knowledge of economic conditions and policy possibilities. Naomi Klein has attributed the discursive aspects of the shift after 1974 to the long intellectual and physical battle by Milton Friedman and the monetarists to dismantle the New Deal and postwar compromises, across continents. She calls it the ‘shock doctrine’; the Russians knew it as shock therapy. Jerry Courvisanos & Alex Millmow have described a similar process in Australia (2006). Erosion of market prerogatives won’t be long tolerated, it seems, even if it is conducted entirely democratically and produces no outcomes that are detrimental to capitalist development:

> Chicagoans did not see Marxism as their true enemy. The real source of the trouble was to be found in the ideas of the Keynesians in the United States, the social democrats in Europe and the developmentalists in what was then called the Third World. These were believers not in a utopia but in a mixed economy (Klein 2007, p.53).

Obviously the economics profession, in academia and outside, has been complicit in re-shaping political expectations.

Similar efforts to produce policies which roll back past social accomplishments, and thereby sharpen assaults on income and security among those affected by market adjustments, seem to transcend mere academic controversy. In Australia much of the running on behalf of policy orthodoxy has been made by Paul Kelly who has become the most influential proponent of the Keating-Howard-Latham view of the world. For more than a decade, Kelly has championed microeconomic reform in the popular media, usually claiming a commitment to growth with decency, or welfare and labour market reform with ‘more opportunity’.[7] It’s the mantra of the ‘third way’, urging the abolition of the ‘old Deakinite protectionist-welfare economic settlement’, promising ‘hard heads but soft hearts’, and criticising Australia’s nostalgic egalitarianism for locking in low living standards! It’s a become a cultural as well as an

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7 Earlier, and equally prominent, journalistic interventions in this vein include Padraic Pearse McGuinness, and the Fairfax press generally.

economic policy crusade as he attacks intellectuals for debasing national achievement and being alienated from the task of statecraft (2007, p.16).

Kelly has wanted, of course, to celebrate the policy shifts which facilitate globalisation and is condescending towards those traditions which argued that institutions shouldn't be haughtily degraded. The responses (Gaita 2007; Rundle 2007) have countered that when political players (that is, Labor) are unprincipled, structural cynicism begins to take over; that some lasting damage has been done to the Australian polity. Elsewhere the term 'democratic deficit' has been used to capture the same phenomenon (Anderson 2007). It is generally accepted by non-liberals that preservation of traditional anti-rationalism (for example, society's desire for social protection) may be a condition for (and not the negation of) what Tom Nairn refers to as reason, abstract thought and comparison: witness 'humanity's preposterous variousness' (2007, p.6)

Of course, more commentators than Kelly have promoted the reforms that are synonymous with the recession, some even lamenting the low level of effective debate (Edwards 2007). In these discussions, though, we seem to get not only the denigration of what have been noble achievements but the elevation of wishful thinking about 'reform' to the status of self-evident truth. Many economists have cited the ability and the use of the arbitration system to transmit wage gains from high-productivity sectors to the remainder of the workforce as an abomination (McGuinness 1985). In fact this one mechanism was responsible for Australia's egalitarianism for a century; and given that the country ranks third in the Human Development Index (twelfth in terms of *per capita* GDP), it would be hard to maintain a claim that this particular instance of institutional sclerosis has held us back (UNDP 2007, p.229; OECD 2007b, p.12).

Policy regimes can be consolidated or transformed in the face of pressures from, for example, the global economy. However, as Colin Hay (2007) has argued, globalisation in fact presents no obstacles to deliberative determination of living standards that sedulous political action could not dislodge. Rather, as he says, it's the discourse that does the damage. If elites are persuaded that taxes cannot be discrepant in an integrated economy, then that's how policy will move. Depoliticisation does erode collective capacities if we allow it; but it is not beyond choice.

Simpler Problems?

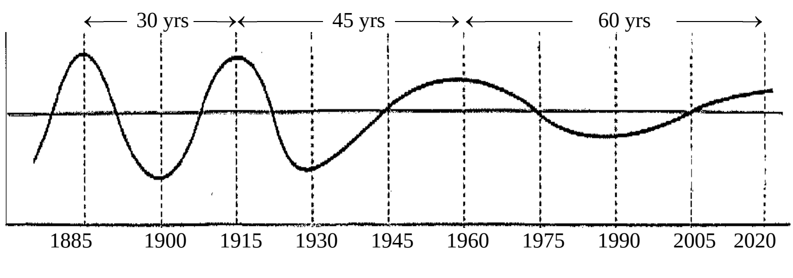
Economic crisis, we may conclude, is only initially an economic phenomenon. Structural change is a recurrent problem, but becomes a social crisis only if the political process accommodates it, rather than compensates for it. Its continuation depends on the unwillingness of the political process to respond in a non-accommodative manner. Institutional developments are imaginable. Nonetheless, due to the bastardisation of the Keynesian revolution and the subsequent monetarist counter-revolution, we might suppose that the peculiar evolution of economic management in the so-called Keynesian era (roughly 1945-1974) has made some aspects of economic management more difficult than they once were. The inability of liberal regimes to institutionalise a commitment to full employment fed the discrediting of substantive and ameliorative (and politically responsive) forms of public economic management, in favour of 'postmodern', homogeneous and universalized forms (Higgins 2006; Higgins & Hallström 2007).

Institutional initiatives directed towards full employment were politically contentious and technically difficult even in the 1930s when liberal discourse was at its nadir. In the 2000s, it is difficult to sponsor even debate over the changing nature of capitalism or the building of unorthodox policy institutions. Even where institutional transformation was effected, recurrent problems of economic management remain. And it is not difficult to find former Marxists ready to fuel what they regard as electoral scepticism towards 'romantics' wanting to expand the state (see Ergas 2007). An ongoing obstacle to debate is that critical Marxism continues to harbour anti-statist sentiment (Jessop 2007; Žižek 2007).

Recessions are now shallower than they once were, because welfare state supports and the counter-cyclical activity associated with larger public sectors have imposed a higher threshold of politically-mandated activity before market fluctuations assert their effects. Even 'bastardised' forms of anti-recessionary policy exerted a moderating influence on the severity of downturns and the stabilising potential of state activity became substantial. Nonetheless, recession may now be institutionally more intractable, even with the requisite political will. It seems to be the case that greater policy effort will required in the century ahead to permanently eliminate unemployment only a fraction as high as it was in the 1930s. Many of the easy solutions, for example, those associated with general or undirected increases in demand and government expenditures, have been adopted. The reforms needed now to guarantee economic activity sufficient to ensure full employment and well-being invite a stronger confrontation with liberalism than was the case a generation ago.

Recessions and unemployment, as we have seen, seem to last thirty years compared with the shorter, though more socially disruptive, slump of seventy years ago. Figure 4 postulates cycles with decreasing amplitude but longer duration (note the sixty-year peak-to-peak cycle) and expresses the need for more concerted institutional and policy effort. The policy effort will also need to counter the intellectual machinations described by Naomi Klein and the more subtle but equally effective local spoliations in the popular media.

Figure 4: Boom-Recession Cycles 1885-2020
(The Effects of Economic Management and Political Institutions on Fluctuations in the Level of Economic Activity, Production, Incomes and Employment)



→ ANTI-RECESSIONARY POLICY BECOMES INSTITUTIONALLY MORE INTRACTABLE →

If this, admittedly speculative, depiction is correct, then the Australian 'recovery' will be forever dependent on the resources sector, with an attendant bias against the level or quality of employment and social solidarity that is technically possible. Even Keynes had mused, in the 1930s, that 'retention of the structure of private enterprise is incompatible with that degree of material well-being to which our technical advancement entitles us' (1933: 240). This idea is at the heart of all politicisation attempts; and it constitutes an ongoing issue in political economy. 'Solutions' cascade into difficulties as if in an ongoing Nietzschean drama. Policies can be imagined but the causes never abate and resistances to policy effectiveness are repeatedly reconstituted.

Principled economic policy and political capacities for the next twenty to thirty years require not only the three sets of institutions mentioned above (to politicise investment, income distribution and the labour market) but additional ones to deal with unfolding problems of the twenty-first century. The desirability of new democratic forms of corporate governance, such as those advocated by Galbraith in the 1970s or possibly along the lines of wage-earner funds, will probably be re-expressed by institutionalist reformers (Dow 2001, pp.180-181). Conservatives will probably ask for arrangements which advance social capital and civility, extensions of the welfare state principle in the direction of universal provision of, for example, enhanced urban amenity. They should be heard. Even the OECD has conceded that 'aversion to inequality' detracts from well-being (2003, p.21).

So, notionally simpler problems have become institutionally more difficult and mainstream institutions themselves more capable of narrowing their own mandates. Unemployment, however, is not beyond the reach of national policy. Full employment has always been a matter of political contention and at the present time this requires reducing unemployment from four-five percent to about two percent and intervening in the discourses that have become incapable of comprehending deficiencies in investment or income or state capacity that are ultimately the causes of recession (in, respectively, the Keynesian, Marxian and institutionalist traditions). If the nature of the policy problem must change to one of repairing damage done to individuals excluded for a lifetime from productive activity, so be it. In the meantime, the current situation suggests we need to develop this new range of political capacities. Continuing refusals by polities to embrace the tasks that polities were always intended to encompass (to engineer what would otherwise be unachieved but is not unachievable) is what I have called 'institutional intractability'. It progressively increases the costs of failure and caution. Governments are not condemned to encounter cynical responses from their electorates, but citizens have been falsely persuaded that politics is impotent. The evidence does not endorse such a conclusion. We need, however, to relearn lessons that have been there for the knowing for some time.

We failed to consummate the promises of the last global boom (1945-1974); will that underachievement be repeated in the next?

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