THE STRANGE DEATH OF NEOLIBERALISM

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The year after the Collapse of Lehmann Brothers triggered the credit crunch and the GFC, Keynes' biographer Robert Skildelsky published a book titled, *Return of the Master*. He was referring to the panic on Wall Street, the City of London and Washington DC that led Western leaders to embrace, albeit briefly, the policies of budget stimulus proposed by Keynes eighty years before. But within eighteen months those leaders and key international institutions like the IMF, had 'snapped back' to embrace the failed policies of 'austerity'. Unsurprisingly this locked most of the advanced western economies into a decade of stagnation and intensifying economic inequality. The few countries, like Australia, that pushed against the wind and maintained budget stimulus policies experienced an economic recovery, albeit tepid. No country in this increasingly interconnected world really escaped the claws of 'the Great Stagnation' following on from the GFC. And so, no country was in a good place to deal with ‘the Great Pandemic’ of 2020.

The brave diagnosis that neoliberalism was dead, pronounced by born-again Keynesians a decade ago, proved to have been exaggerated, as Mark Twain might have said, again. But this time, it's different - I think! Why? And if I'm correct, what does the future hold when some degree of normality returns to our lives?

The neoliberal turn

From the early 1970s, roughly kicked off by the collapse of the post-world war II international monetary system, governments and their economic

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advisers turned away from direct intervention in the economy to rely as much as possible on the role and rule of the market. I say, 'the market', singular, because the term is an abstract concept meant to represent real world markets for the disparate patterned interactions of specific buyers and sellers. The same logic, constraints and outcomes are assumed to cover trading in things as different as soap powder, cars, houses, company shares, corporate bonds and workers' labour. Competitive markets are held to most efficiently allocate the resources of an economy so that (a) no reallocation could make everyone better off and (b) no resources are left unemployed, other than by the voluntary decision of their owners. It was Keynes' genius to demonstrate the fallacy of point (b). Mass unemployment was not only possible but ever-likely unless governments stood ready to intervene when markets collectively failed. Point (a) also fails muster when and where monopoly and other market failures persist, as they must in the real, as opposed to, textbook world.

However, just because real world markets fail doesn't necessarily mean that government will succeed. The power of the neoliberal critique of Keynesian policies lies in the claim that no government can gain the economic intelligence in time necessary to 'fine tune' the economy. Only markets collectively and impersonally bring together, as if by a hidden hand, all the aims of buyers and sellers, producers and financiers in a coherent outcome that makes best possible use of a country's resources. Yes, there will be waste, frictions and opportunities missed but, over time, they are small compared to the mistakes likely to flow from the interventionist policies of ill-informed, slow-footed government. Some economists of a Calvinist bent positively embrace the harsh judgment of markets in impersonally punishing those who would seek to interfere with the collective judgments of the market.

This anti-government position is more a matter of economic theology than empirically grounded argument. To reprise an early comment of Keynes, whenever recession threatens, governments tend to reach for their battered copies of *The General Theory*, only to cast it aside when the stormy sea is flat again, This is not fine tuning but a rescue refit. Time and again, recessions over the past eighty years have been shortened by deliberate government intervention to stimulate effective demand. And yet orthodoxy has, time and again, reasserted its grip on the minds of public and politicians alike. However, there are reasons for thinking that this won't happen this time.

Reality bites

The scale of the public health emergency wrought by COVID-19 has led to a virtual state-decreed closure of the market as the primary economic mechanism in the economy. Markets continue to operate on one cylinder, in sectors associated with health, agriculture, public administration and emergency services, and online in other sectors like education and retail. But what is glaringly obvious is that, in dealing simultaneously with both the health and resultant economic crises, government is absolutely central to success or at least, to avoiding complete catastrophe. The idea, previously adopted as axiomatic, that the market can do everything worth doing and that all government needs to do is stay out of the way and enforce existing private property rights is challenged by every press conference at which the Australian Prime Minister, Premiers and public health officers address the nation. In an emergency people look to their leaders for guidance and hope. Our governments bear - they must bear - catastrophic risk; it cannot be laid off to markets. This is the one big lesson of the pandemic: infectious disease control is a vital public good that can only be provided by government. The corollary: this will only happen if regulators are adequately resourced.

So, when, finally, lockdown is progressively wound back, the view that government is economically redundant is unlikely to survive, at least in its extreme neoliberal form. Attempts will be made to breathe life back into the zombie ideas of orthodox economics. Conservative governments, including Australia's, stunned at their courage in unleashing the full fiscal might of their Treasuries and central banks, will search for ways of reining in the burgeoning national debt taken on to get through the storm. All the old saws – 'need to live within our means', 'must not overburden our children with future crushing taxes', 'time for us all to pull in our belts', etc. etc. - will be dusted off and presented as new. But a serious review of future prospects will make this a difficult exercise in the liberal democracies.

First, voters will have embedded in their recent memories the countless times they have been told that government spending at 'unprecedented' levels is not a problem. Haven't our leaders been hammering this point throughout the last couple of months as they introduced ever more gobsmacking support packages?

Second, the burden of even huge increases in public debt will be bearable in the medium term, as long as central banks maintain interest rates at historic lows and as long as the economy begins to generate activity and jobs to pay the taxes necessary to gradually repay that debt over time. (Australia is fortunate in that we start with a public debt to GDP ratio of about 20 per cent, much lower than most other advanced economies.)

Third, governments will need to (should) address the over-stretched global supply chains that create bottlenecks and fracture points when national economies are under stress, as they currently are: this is the second big lesson, don’t become too dependent on one or a few supply chains. (And is it wise to allow a situation where the supply of strategically key products like personal protection equipment and medical respirators are monopolised by one or a few countries?)

Finally, consumers chastened by near-death experiences and still carrying an overhang of household debt will have become used to more modest expenditures. Businesses will take time to come out from their bunkers, reassess and move to repair their battered balance sheets. Bankruptcies will require time to be resolved, leading to business and industry restructuring.

All this will underscore the need for continuing government spending, preferably on productive infrastructure, including reducing the huge backlog of unmet social housing need, future proofing against future pandemics (they will be back) by improving our health system and stockpiling strategic medical supplies and addressing the inadequate social safety nets for the unemployed, underemployed and otherwise disadvantaged.

Finally, we are likely to need a complete rethink on the current market determined distributions of income and wealth. We have reached a situation where the combination of income and indirect taxes, the opportunities for tax minimisation and the impact on effective marginal tax rates of the social security system have reinforced, rather than offset, the increasingly unequal 'pre-distribution' of income, thereby accentuating the wealth polarisation in our societies. If left untreated, this trend will further depress effective demand and feed the global savings glut driving asset inflation and financial market volatility and fragility. Governments are going to need to take a positive role in ensuring adequate effective demand in the first years of recovery and after.

For medium-sized economies like Australia, longer term strategic questions must be answered. Lagging private demand will be reinforced by a large fall in overseas migration for the foreseeable future and the long-term decline in the total fertility rate. Bumping up growth and jobs by simply relying on a flood of migrants won't cut it!

What I hope turns out to be a near-death experience rather than total social collapse and anarchy should finally loosen the grip of the Ricardian theory of comparative advantage – the idea that by leaving markets to roar, an open economy like Australia's can happily accept being confined to those productive areas of activity in which we have a 'comparative advantage'. Never mind the hollowing out of local manufacturing, even the strategically vital production of medical products and technologies. We cannot, or at least, should not, happily drift along by selling raw materials, attracting overseas tourists and students, working in low skilled, low paid retail and service jobs, and importing everything else from China. Genuine strategic economic planning is required that will also deal with our pressing national problems of population and climate change.

On that last point, the current forced global 'pause' in economic activity is temporarily reducing greenhouse gas emissions, providing breathing space – literally in heavily polluted cities like Beijing – to work out collective policies to reverse the march towards an unliveable future. The challenge will be to make use of this brief window of opportunity before the eventual recovery and rebound forces us back onto the path to environmental destruction. Australia's Prime Minister clothes this in terms of reasserting our economic sovereignty. Time will tell whether this is more than a rhetorical flourish.

Use the crisis!

On the basis of the motto – never let a good crisis go to waste – coming out the other side presents real opportunities for Australians. People will have seen (I hope) how the various financial and regulatory policies imposed to fight the crisis have worked. In Australia's case, large wage subsidies, doubling of unemployment assistance, and free provision of childcare suggests that a permanent universal, adequate system of income support and adequate public provision is both feasible and valuable. This could be implemented through (a) a generous (by past standards) guaranteed minimum income scheme (say at 70 per cent of mean fulltime earnings) , supplemented by a job guarantee scheme and (b) a broader suite of 'merit goods' (such as childcare and dental services) provided by government. This may require selective (re)nationalisation of key organisations in return for current assistance to survive – perhaps in the banking and airline industries. A form of 'political hysteresis' that makes it difficult for democratic governments to take back the support provided during the crisis works in favour of such a 'revolutionary' approach. Conservative attempts to 'snap back' to previous mean minimum support can be politically resisted, if progressive forces are sufficiently marshalled and deployed. Something similar happened in 1930s America and after World War II. Why not again?

The other side of this coin is a largescale revamping of the taxation system, both to deal with the increased public debt overhang from the current crisis, and the moral imperative to equitably spread the load of recovery. As in the recovery period following world War II, increases in the burdens borne by high income earners and the wealthy through more progressive income taxes and estate duties, complemented by a systematic crackdown on tax avoidance and evasion, are required. In order to catch and dissuade the anti-social actions of large multinational corporations, taxes may have to be shifted from profits declared in a country to a minimum flat tax on revenues earned in that jurisdiction. This implies a generalised form of what is called 'a Tobin tax'.

Such suggestions might be considered 'nuts' in normal times. But times are not normal. The current crisis has drawn comparisons to wartime: 'we are all in it together', 'sacrifices have to be made to win through', etc. Well, after World War II, the western democracies experienced a period of 'unprecedented' sustained economic recovery and social transformation, resulting in a long boom. This was achieved by governments embarking on major infrastructure programs, such as the interstate highway and major water projects in the US and the Snowy Mountain Scheme in Australia. America helped to recapitalise the European nations through the Marshall Plan. The neoliberal era then saw a very truncated, narrow pattern of investment in infrastructure, involving a lot of churning of assets transferred through privatisation and the progressive financialization of western capitalism.

There are now massive opportunities for government to drive major new projects, drawing on the plentiful supply of liquidity sloshing around financial markets at super-low interest rates. This was how Sydney scored its iconic Harbour Bridge, financed at bargain rates by British bond holders during the Great Depression with loans repayable over the next fifty years. This was probably the premier city's greatest ever single investment. New manufacturing industries focused on energy, transport and communications can be fostered by wise government policy settings, requiring complementary investments (public and private) in education and training. But above all, we must break away from the zombie's curse – trickle-down economics, small government and the 'propertarian' cult of the free market.

Beware the zombies

The danger, ever present, is that the wartime spirit of equal sacrifice fades and the old norms and patterns of influence reappear and consolidate. Recent predictable attempts by Morrison to edge the narrative of 'the road out to the other side' towards a focus on the 'need to revisit' industrial relations and company tax cuts must be recognised for what it is – a blatant attempt to turn back history. The zombies are afoot, beware! The current global crisis gives us a chance, slim though it be, to begin to deal with the really big ongoing challenges. In addition to being prepared for future pandemics, the linked issues of nuclear annihilation, climate change and the insidious growth of cyber warfare call for concerted international cooperation, using whatever current international architectures exist and whatever new ones can be constructed before the Doomsday clock strikes Midnight.

On that cheery thought, let's note that the Doomsday Clock recently updated in the Bulletin of Atomic Scientists is now set at one hundred seconds before Midnight, the first time since its introduction in 1947 that it has fallen below two minutes! This signals a code red emergency level greater than when president Reagan promised Star Wars and President Kennedy confronted Secretary-General Khrushchev during the Cuban missile crisis.

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