

Born to fail: Neoliberalism and the meltdown

By Radical Randy

The recent global meltdown revealed the new economic order to be a financial house of cards. This should come as no great shock since the justification underpinning it is itself built on an intellectual house of cards.

The only really surprising thing about the crash is that it took so long to happen. The market collapse was not an anomaly but rather a natural consequence – an inevitability contained within the contradictions and absurd premises of the neoliberal capitalism the world's governments have blindly pursued for the last several decades.

Since the 1980s, the public interest has been subjected to an unremitting assault by free-market fundamentalists. Neoliberalism, championed by Milton Friedman and the Chicago School of Economics, goes under many names such as supply-side or free market economics, and Reaganomics, but perhaps “capitalism gone berserk” would be most appropriate. In its international application to the developing world, with free trade and globalization, it is usually referred to as the Washington Consensus. Its principal tenet is that profit ought to be pursued without limitation by corporations and individuals, even at the expense of the commodification of every aspect of our lives. In practice, this means deregulation, tax cuts for corporations and the wealthy concomitant with resulting cuts to public services and privatization, elimination of labour and environmental standards, and outsourcing of manufacturing to sweatshops in the developing world. Governments, rather than serving their citizens, would be restricted to facilitating business by enforcing contracts and guarding private wealth. Any dislocation or pain for some would just be the result of a temporary adjustment period. The competitive Market could be counted on to provide for all human needs, allocating resources in a fair manner to the winners. This would produce a better world or so the rich kept telling us, and why would they lie?

We just need more time...honest

As you may have noticed, the trickle-down fairy has been a tad tardy making the rounds. As described in the *Post's* Winter 2008 article, “Hot economy, lukewarm wages,” worker's wages have stagnated or declined in the last three decades with profits from productivity gains going to greater owner returns rather than increasing workers' paychecks or expanding capital investment in the business, especially in Canada. Unions were kept in line with the threat of outsourcing to overseas sweatshops along with government attacks on collective bargaining, while the “labour flexibility” promoted by neoliberals ensured workers were properly disciplined. Even the middle class struggled just to stay in place. Meanwhile, upper management and CEO compensation continue to soar. The economic boom in the developed world over the last decade was fueled not by higher workers' wages, but by an ever-growing mountain of consumer and mortgage debt.

Albertans are only too familiar with neoliberalism, following the economic assault carried out on them by Ralph Klein's Conservative government. Alberta had perhaps the lowest oil royalties in the world but, despite his preoccupation with the debt dragon, Klein somehow found enough wiggle room to cut taxes for the rich with his regressive flat provincial tax. Meanwhile, Albertans suffered the partial dismantling of medicare and a relentless attack on organized labour as part of the privatization and business-friendly agenda.

Under Klein, public spending on education, healthcare, and municipal affairs was slashed while the province continued to provide generous subsidies to the industrial sector. Many medical services were de-insured. There were severe reductions in the number of nursing, teaching, and other public sector jobs. Meanwhile Alberta continued to give away its oil and gas resources at rock-bottom royalties.

Nationally, Canadians began their exposure to neoliberal policies with Brian Mulroney's cuts to unemployment insurance, old age security, and transfers to the provinces for health and education. The public sector itself was subjected to continual siege since, as any neoliberal economist could tell you, the private sector could always deliver results more efficiently. The battering continued under Jean Chretien's Liberals with their caps on transfers to the provinces for social programs and the privatization of the national transportation system.

A convenient crisis made to order

An ongoing excuse given for federal and provincial cuts to social programs has been the deficits. A cornerstone of neoliberal theology has been the absolute need for balanced budgets at all costs. The Albertan and Canadian Conservative governments have been forced to abandon this absurd rigidity with the return of budget deficits. The failure of neoliberal dogma has led to a revival of Keynesian counter-cyclical spending in which governments run deficits during a recession to help revive the economy.

A major contributor to the dreaded deficits was high interest rates, which also slowed the economy and led, coincidentally, to high unemployment, keeping wages down and corporate profits high. The suffering caused by high interest rates was justified by the Bank of Canada's monetarist policy as necessary to bring inflation down to virtually zero, despite most economists' agreement that a moderate level of inflation is not a crucial problem. Another major factor feeding the debt monster were neoliberal mandated tax cuts for the wealthy and big business. In the post-war period, corporations in Canada and the U.S. provided approximately 40 per cent of total federal tax revenue. Now their share is down to around 15 per cent. Despite the incessant whining of our business press about high taxes and the competitiveness gap, the tax rate for Canadian corporations is now lower than that of the U.S. Meanwhile, our competitiveness has fallen below that of several higher-tax European countries. Much of the income of the wealthy and their corporations disappears into tax havens. Guess who gets to make up the difference? During the 1990s, Canada's Liberal government perfected the gimmick of

underestimating revenues and using exaggerated budgetary deficit fears to slash social spending. When surpluses then mysteriously appeared, the cuts were locked in with further tax savings for the corporations and the rich.

Economic never-never land

A direct consequence of the deregulation of neoliberalism was the shift to an increasingly finance-intensive mode of development. The financialization of the economy led to inflated values of paper financial assets relative to the value of the real assets they were supposedly based on. This triggered the tech-stock bubble and U.S. housing bubble and their crashes, as well as the creation of ever more opaque financial derivatives prior to the meltdown. This financial gaming is purely extractive, siphoning off the real wealth workers have created. At least the reviled 19th Century robber barons left behind some tangible structures besides their mansions

The market fundamentalists' equation of "paper wealth" with actual productive wealth has allowed them to sell the illusion of increased growth while the stock market was rising. In fact, contrary to their ideology, growth in both the developed and developing world was about twice as high in the post-war decades before the imposition of market supremacy as in those decades that followed. What GDP increase there was was not fairly shared but only resulted in the rich getting richer, with inequality in the developed world reaching levels not seen since the 1920's.

In the neoliberal parallel universe every problem had a market solution. Worried about the pollution caused by economic growth? Don't be! Even more growth will produce the wealth needed to clean up the mess all the economic growth has created. Peak oil and resource depletion threatening the economy? The market will save us! As the supply falls the resulting added incentive will lead to more exploration and by the abracadabra of the free market more will be found as needed in an inexhaustible supply. Greenhouse gases causing global warming? Don't let the meddling nanny state regulate emissions when the infallible market can be counted on to solve the problem with carbon trading.

One last gasp?

Leaders of the developed world now cautiously proclaim the revival of the global capitalist system, while corporate media gives implicit hope to a return to the good old days (good at least for wealthy investors). Happy days are here again, or at least will be soon, if only we believe.

What the pundits don't seem to get is that the instability of the global financial system was a requirement for its spectacular rise. To induce ever increasing volumes of money to invest and drive stock prices up required an ever-increasing rate of return. This in turn necessitated less regulation and disengaging the safeties on the system, leading directly to the meltdown.

The crisis the global capitalists now face is that those with money have little if any unmet needs while those with real needs have no money with which to buy. As neoliberalism exhausts its markets, its only hope is to further enclose the global commons, privatizing education, healthcare, water delivery, and the genes encoding life itself for corporate gain. The occasional war or two has also been found useful in keeping the corporate bottom line in the black.

Capitalism, especially neoliberalism, is like cancer and must continually grow to survive. Needing to constantly expand to increase returns for investors, it is ultimately predicated upon infinite growth on a finite planet. Ironically, whatever anemic recovery global capitalism manages, with sufficient government handouts, may well come just in time for the advent of peak oil to finish off the whole tottering edifice.

The crisis in neoliberal capitalism offers a real chance for change to a fairer, more environmentally sustainable world, but, if past behavior is any guide, the political and economic elites will use the turmoil to implement “reforms” that further entrench their power. Prime Minister Stephen Harper’s major response has been further corporate tax cuts. Premier Ed Stelmach’s Albertan government reacted to the meltdown with billions more in royalty reductions for oil and gas companies while using the deficit as an excuse for the latest cuts to medicare and other programs, a cynical return to the days of Klein. In their ongoing slavish devotion to their failed “free market” ideology these politicians, and the economists and media pundits who still cling to some hope of salvaging neoliberalism, have now finally vacated Fantasy Island and crossed over into the Twilight Zone.