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The Weekend Australian



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Kevin Rudd is the Australian Labor Party's most formidable federal parliamentarian and he has decided to wage war with his political opponents on ground zero: the place where market capitalism meets society.

In his essay in the November issue of *The Monthly*, Rudd opens up an extraordinary challenge to the political and economic orthodoxies that, during the last quarter of the 20th century, have come to assume commanding heights across the entire world. Not only are John Howard and the muftis of neo-liberalism in Australia in Rudd's sights but the prophet himself, Friedrich von Hayek (1899-1992), and his indigenous cells (not least Australia's Centre for Independent Studies) are engaged in this confrontation.

Rudd seeks to clearly distinguish the social democratic project, of which he is a proud champion, from the neo-liberal project that is the dominant policy paradigm in the national affairs of our country. He writes: "There are no more corrosive agents at work today, on the so-called conservative institutions of family, community, church and country, than the unforgiving forces of neo-liberalism, materialism and consumerism, which lay waste to anything in their path."

Positioning social democrats as the proper heirs to Adam Smith, Rudd continues: "Modern Labor, following Smith, argues that human beings are both 'self-regarding' and 'other-regarding'. By contrast, modern Liberals, influenced by Hayek, argue that human beings are almost exclusively self-regarding."

Rudd concedes that the self-regarding values of security, liberty and property are necessary for economic growth. He argues that the other-regarding values of equity, solidarity and sustainability must be added to make the market economy function effectively and to protect human values such as family life from being crushed by unchecked market forces.

Neo-liberalism is, according to Rudd, a fundamentalist repudiation of other-regarding values in favour of self-regarding values. Neo-liberalism is therefore incompatible with socially responsible conservatism. But the traditional conservative parties of the Western world have capitulated to neo-liberalism. Rudd's conclusion is that conservative campaigns on moral, cultural, security and immigration issues through the culture wars are merely desperate attempts to hide that their policies are socially and economically damaging and that they have sacrificed their central value – defence of the family – on the altar of greed.

Following a muscular but largely unexceptional advocacy of Christianity in politics in the October edition of *The Monthly*, the intensity of Rudd's anti-market heresy in this later essay is startling.

For me, a fellow traveller who is trying to reform the welfare state so it can respond helpfully to the disaster engulfing my people, this new development in Australian debate is intensely interesting.

There are two questions: Is Rudd right? Will this new strategy benefit Labor?

Rudd's thesis is a bold departure that will prove to be ahead of its time in its reading of possible tectonic shifts in subterranean national mood, or it is a miscalculation. It is in any case an unprecedented strategy for a social democrat seeking power in a Western democracy in the middle of the first decade of the 21st century.

Since the neo-liberals took over economic policy in the 1980s, social democratic parties gained government through a political project that came to be known as the Third Way. Rather than opposing the ascendant neo-liberal economic nostrums, the social democrat leaders of the Third Way adopted them, and proposed that socially responsible goals could be achieved through market means and methods. The Third Way was compelling rhetoric and strategy, and it enabled the successful takeover of the centre ground by Bill Clinton, Tony Blair and other social democrats such as Gerhard Schroeder throughout the 1990s.

It is little appreciated that the developers of the Third Way were Bob Hawke and Paul Keating. The Hawke-Keating governments embraced and implemented neo-liberal reforms during the Thatcher and Reagan revolutions, but they also redoubled their commitment to a social democratic safety net and social wage.

Long before Clinton and Blair, Hawke and Keating had triangulated the political Right with their combination of neo-liberal economics and social democratic social policy.

Mark Latham spoke and wrote extensively and enthusiastically about Third Way theory before becoming leader of the ALP; there was no doubt he was the heir to Keating in his conviction in neo-liberal economic policies but, in practice, as leader he reverted to the old class warrior. The difference between Third Way social democrats and old schoolers was demonstrated in Labor's failure in 2004 to take up Keating's suggestion that the top marginal tax rate be lowered so it would have "a three in front of it". History tells that the anti-King's Schools policy got up with the party powerbrokers, but Latham's originally preferred tax policy thinking did not.

When it came to economic policy, nobody in Labor knew better than Keating how to hunt for the so-called radical centre of politics, and nobody has had a clue since.

Rudd's stated goal is to reclaim the centre. However, there are considerable risks associated with Rudd's attempt to develop a much more detailed philosophical underpinning for Labor's policies. I have three reservations, one substantive and the other two tactical.

First, it easily happens that Rudd's societal model becomes interpreted like this: some people are successful, and as well as being self-regarding they should be other-regarding. Then there are the disadvantaged. The problem is that it is assumed that the life chances of the disadvantaged depend on the other-regard of the successful, a precarious dependency in the absence of state institutions compelling other-regard, or an institutionalised dependency that my people have come to know as passive welfare.

In reality, what is needed to counter passive welfare is an increase of self-regard among the disadvantaged, rather than strengthening their belief that the foundation of their livelihood is the welfare state and the other-regard of the successful.

Second, is it beneficial for the ALP to wage war about which thinkers have correctly interpreted the philosophical inheritance of Adam Smith? Rudd's endorsement of John Kenneth Galbraith and H.C. "Nugget" Coombs is bound to be contentious.

Also contentious is his vehement attack on von Hayek. Friedrich von Hayek will never be a good target for demonising because people across the political spectrum will always acknowledge that he reminded the world about the importance of some aspects of the liberal heritage that were under-valued for a large part of the 20th century. Not only conservatives, but also social democrats have had to capitulate to some of von Hayek's liberal insights. Even those who do not agree with von Hayek recognise him as a consistent representative of certain political and economic liberal ideas, having expressed those ideas clearly and successfully.

Rudd suggests "a new coalition of political forces uniting those who are disturbed by market fundamentalism". My third reservation is that Rudd's envisaged coalition seems to include not only those who are disturbed by extreme liberalism but also groups that are opposed to the market and to liberalism *per se*.

When Rudd condemns "the unforgiving forces of neo-liberalism, materialism and consumerism, which lay waste to anything in their way", he echoes a longstanding observation of the tremendous creative, destructive power of capitalism going back to Marx's and Engels' original critique and the spiritual wasteland that Max Weber's "iron cage" of capitalist accumulation had wrought.

The question is whether taking up this century-old line of thought will benefit the Labor Party in 2006. Today people will interpret Rudd's "materialism and consumerism" as referring to the lifestyles and consumer choices of ordinary Australians. What kind and degree of material acquisitions and

consumer choices are more or less spiritually fulfilling is a question for theology.

The obvious riposte to Rudd from the conservatives is that continuous liberal economic reforms are necessary for economic growth and prosperity, and that we cannot maintain a caring and family-centred society without growth.

But I still believe Rudd has started an important debate. The world's conservative parties have a case to answer about whether they have abandoned their concern for the conservation of social and cultural institutions and values in favour of a society where profit is god. Stripped bare, will political conservatism show itself to be concerned with nothing more than the conservation of privilege?

I asked whether Rudd's is a bold initiative ahead of its time or a miscalculation.

There is a large market-friendly constituency who would agree that many of the Government's policies are unfair, ideology-driven and even economically sub-optimal. Rudd is careful to only attack market fundamentalism and never the market as such, consistently warning against "unrestrained capitalism".

But, as it has been executed, Rudd's initiative is probably a miscalculation. He does not expend rhetorical power on clearly stating that the self-regarding liberal values are necessary for economic growth. The effect is that Rudd's criticism comes across as being directed against the market.

His message is obviously pitched to also appeal to those who are alienated by capitalism and by the uncertainty and rapid change of the modern, prosperous economy.

I do not think, however, that this is a constituency around which one can build a coalition to take power.

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