

## Brexit, Trump and the Lucky Country – Introduction

Two years ago, in response to John Menadue's suggestion, I wrote a series of articles under the theme "[Is capitalism redeemable?](#)". They covered stresses on our economic system, emphasizing the consequences of widening inequality. In one of them I wrote:

When legitimacy is lost people are inclined to reject the whole capitalist model, turning to superficially attractive but destructive alternatives.

When I wrote that I imagined something happening maybe five or ten years down the track, triggered perhaps by a global recession. We had been through the 2008 financial and economic crisis without a populist uprising, and by 2016 most "developed" countries, including Britain and the USA, were on the road to recovery. Admittedly a slow road, but the main economic indicators – GDP, unemployment – were pointing in the right direction.

That's why Brexit, Trump's election, the rise of far-right parties in mainland Europe, and here the electoral success of One Nation and other protectionist movements took us by surprise.

The immediate (and still dominant) interpretation of those events has been to ascribe them to an "anti-globalization" movement. But as [John and I wrote](#) a few weeks ago, "globalization" is too simple a term to describe what people are reacting against. No one is objecting to cheap international telecommunications and travel, for example. Even in the absence of tariff reductions, technology would have wiped out many of our manufacturing jobs. And perhaps "globalization" is taking the rap for many objectionable policies that are entirely of domestic making, such as privatization of water and electricity utilities.

Just as Marxists a hundred years ago justified revolutionary communism on the basis that it was futile to protest against its unstoppable tide, so have our politicians presented "globalization" and its supposed accompanying measures – "small government", privatization, deregulation, contracting out, unbridled competition – as inevitable and unquestionably desirable developments.

A dominant rationalization has been that while these market-friendly measures, collectively known as "neoliberalism", may increase inequality, they would leave no one behind. The boost to growth would ensure that those who may lose out – such as employees in previously protected industries – could be compensated. We may recall the aphorism "a rising tide lifts all boats".

The trouble is that even if no one is left behind materially (in itself a doubtful proposition), inequality counts. As former US Labor Secretary Robert Reich points out in his 2015 book [Saving Capitalism: for the many, not the few](#):

If America's distributional game continues to create a few big winners and many who consider themselves losers by comparison, the losers will try to stop the game – not out of envy but out of a deep-seated sense of unfairness and a fear of unchecked power and privilege.

It's been hard for economists and policymakers to understand this sense of loss. A former worker in a car plant in Detroit, Michigan or Elizabeth, South Australia may have been fortunate enough to find another job in the service sector, perhaps even a job paying just as well as in the car plant. If so, that would show up in the official statistics as a successful policy outcome.

But those official statistics would not pick up the loss of community, the loss of respect as a member of a skilled workforce and the loss of pride in identification with the product – losses described eloquently by Gideon Haigh in his work on the Australian automobile industry [End of the road](#).

Australia's policymakers have obviously been shocked by Brexit and Trump's election, but so far they have been floundering. The Commonwealth Government is panicking.

While their rhetoric continues to be about “jobs and growth” and the need for corporate tax cuts, as if they have learned nothing from the events of last year, their action has been to turn to old fashioned protectionism (subsidies for the submarine industry, local preference provisions in the Australian Building and Construction Commission Act), and a promised billion dollar subsidy to get an otherwise uncompetitive venture (the Galilee Basin coal mine) off the ground. And it’s been convenient to take the muzzle off Immigration Minister Dutton to let him make a few anti-Muslim immigration dog whistles.

Protection and subsidies won’t bring back those manufacturing jobs, and as [George Megalogenis](#) reminds us, Australia has prospered only when it has been open to the world.

At a high level of generalisation it’s easy enough to suggest a policy path. Australia needs to stay open to the world, holding on to the best aspects of globalization. We need an economic structure that ensures economic gains are distributed fairly, and that when we have to bear short-term pain to realize future benefits the sacrifices are shared widely. It’s important that people don’t just have “jobs”, but rather that they have opportunities to develop and use their abilities to make meaningful contributions to our collective well-being, and that there is a clear link between people’s contributions and their rewards.

But there is no easy way to translate these ideals into practical public policy. To do so involves difficult adaptive work for policymakers – politicians, public servants, journalists, economists. They have to understand and respect those who, in democratic processes, have supported Brexit, Trump and One Nation, and to re-examine their own assumptions, beliefs and motivations.

John has suggested that as a contribution to this process I once again write a set of articles for his blog.

Apart from a life immersed in public policy I claim no particular expertise (I may be too much of an insider myself), but I have attempted to draw together the various strands of observations and theories into a framework, more for the purpose of pointing out areas for consideration and raising questions rather than making specific policy suggestions. I have therefore written a set of eight short chapters around that framework:

1. Who’s been left behind?
2. The response of those left behind
3. Globalization takes the rap, unfairly
4. Issues re-framed
5. How we lost trust in government
6. Who exploited discontent and how
7. The "left" went AWOL
8. Don’t wait for a “leader”: we need leadership

I don’t come to any grand theory. Rather my intention is to put forward various tentative explanations for what has happened, and to dispel any notion that there is one great movement. As in all situations of public policy it’s all more complex – and interesting. And I want to dispel what is called “the trap of fatalism” – the idea that the rejection of liberalism is so strong and overwhelming that it’s futile to go against it.

And if you want loads of holiday reading I have provided plenty of hyperlinks to the works of people who can help us all in the task of understanding what's going on.

## Brexit, Trump and the Lucky Country 1 – Who’s been left behind?

*In “developed” countries the benefits of 35 years of economic growth have been unevenly distributed. Many people who once had well-paid manufacturing jobs and many who live in the country have fallen behind. While this has been most starkly manifest in the US, it is also happening in Australia.*

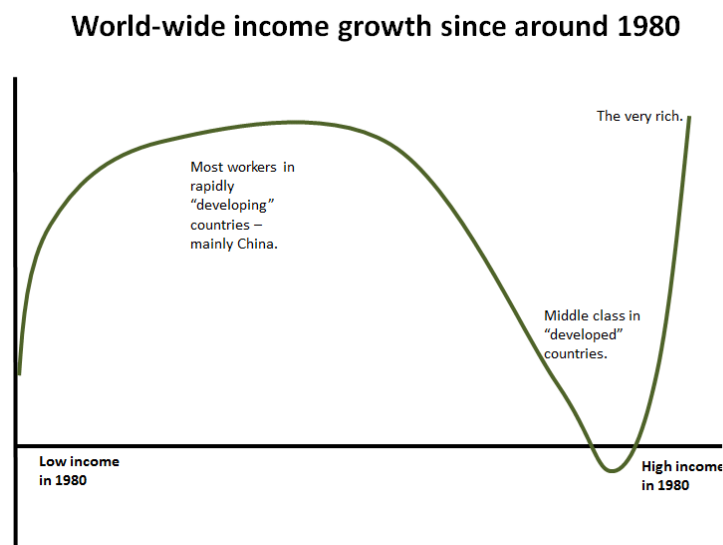
No sooner had the Brexit vote been announced than the commentariat were talking about a great but hitherto unseen tide of change washing over the world, or at least over the prosperous liberal democracies.

A rejection of globalization was the first explanation, followed by the idea of a right wing resurgence. Then, in the US election campaign, Hilary Clinton let slip what many had believed but not uttered – that Trump’s supporters, or at least half of them, were “deplorables” (translating roughly into the Australian term “bogans”), who, by implication, lacked the capacity to make a wise choice at the ballot box. It’s reminiscent of arguments for the limited franchises of our state upper houses when only “proper” people of means were entitled to vote in legislative council elections, a restriction that held until recent times.

These and other explanations may have some validity, but it would be fallacious to ascribe Brexit and Trump’s success to one big factor. Further on in this series we will look at the impact “globalization” has had on “developed” countries: it seems to have been loaded with many of the sins of neoliberalism. And we will look at the supposed swing to the right, even though by some interpretations one could equally describe the developments as a swing to the left. Many of the issues which have influenced these votes are ones that in the past directed support to social-democratic parties, such as the Democrats in America and Labor here.

### Who’s won and who’s lost – the disappearing middle class

A starting point is to look world-wide to see how the gains from economic growth have been distributed over the recent decades. This is shown schematically in the figure below – sometimes known as the “[elephant curve](#)”.



Starting at the low income end, while there are still many people trapped in poverty, particularly in south Asia and Africa, in north and east Asia strong economic development has seen many lifted out of extreme poverty – almost a billion in China alone. Manufacturing workers in these countries are now occupying the position manufacturing workers in “developed” countries held in the postwar years, but at a lower absolute income (for now).

The people who have not shared in this growth are the middle-classes in “developed countries”, who in 1980 were in the middle of the distribution within their countries but up near the top on a worldwide scale. In fact for them the curve dips below the axis. In the US average real wages now are [lower](#) than they were in 1970. In other countries the general pattern is that while middle-class wages have risen, growth has been low.

At the top the very rich have become richer, in both “developing” and “developed” countries.

In “developed” countries the very poorest, dependent on social security benefits have generally kept up their relative position, albeit from a low base in many countries. The general pattern has been a hollowing-out of the middle, and those who have slipped back are described as having been “left behind” (a term with its own patronising undertone).

Not only have they failed to share in the benefits of growth, but also many have borne personal costs associated with economic change, including unemployment, displacement and lost status. These changes in fortunes go well beyond the normal dynamics of social mobility – in some ways they are the antithesis of social mobility because they may be entrenching inequality.

Unlike the unionized working class of earlier times those who have not prospered don’t form any defined group. Therefore, lacking organization, they don’t have a strong voice in the corridors of power. When the chance comes, the ballot box remains one place where they can be noticed and exert some influence.

Their voice broke through in the Brexit and Trump votes.

### **The Brexit and Trump votes in perspective**

It is easy to be carried away by the drama of those votes, as if they came without notice. But most probably the discontent fuelling them has been seething for a long time. Give or take a few years, inequality in “developed” countries, one of the main drivers of discontent, has been rising since 1980. For the first few years widening income inequality may pass unnoticed as people reduce their saving or go further into debt to sustain their material living standards, but those coping mechanisms have obvious limits, and in time income inequality leads to wealth inequality, which, as Thomas Piketty warns, is self-perpetuating. Discontent mounts over time.

Just as geologists cannot predict just when the pressure in tectonic plates will cause an earthquake, it’s hard for even the most informed political pundits to predict when election results will tip over the threshold constituting a winning margin. Had a few more people in the UK and the US – “progressives” who take liberalism for granted – gotten out of bed and voted, the current political narrative would be radically different, even though the discontent would still be there, to be manifest at a later vote or referendum.

Although the Brexit and Trump results are significant – highly significant – they need to be seen in perspective, because they stem in part from biases in voluntary voting, particularly when opinion polls predict a clear winner. Why vote if the outcome is already determined?

The other bias is about people's motivation to complain. Business people know that dissatisfied customers are far more likely to complain than satisfied customers are to send thank-you emails; university lecturers hear far more from students who feel they have been marked down unfairly than from those who have had the luck of easy exam questions. There is a psychological distortion – the “representativeness bias” – leading us to over-estimate the strength of those who make the most noise.

The Brexit vote was 52 percent on a 72 percent turnout (37 percent net), and the Trump vote 46 percent on a 58 percent turnout (27 percent net). With compulsory voting, or even a more engaged electorate, the outcome for the US election at least would have been very different. (Support for Brexit seems to be more solid.) Possible reasons for political disengagement by “progressives” will be covered in Part 5.

Australia, thanks to the mining boom and our trade links with China, has not seen the same extent of hollowing out of the middle-class. Until the last three or four years most incomes have been rising, but even here the gains have gone disproportionately to the already well-off. In Australia, from 1910 to 1980, income inequality lessened, but since then inequality [has opened up](#) once more, and we are now back to around where we were in 1945.

Riding on the Brexit and Trump votes, nativist and right-wing movements have been energized, and in Australia we have not been immune from this trend. [Polling](#) suggests that One Nation has been improving its vote, and may do well in rural and outer-suburban seats in the coming Western Australia election. Politicians on the conservative right of the Coalition parties, drawing confidence from Brexit and the Trump vote, are asserting that their time has come.

Also in Australia, the Murdoch media is revelling in the supposed end of progressive political movements, and true to form their journalists are stirring up anger and indignation as a way of enticing people to vote against their class interests.

Just as in 1917 communists talked about a great people's uprising – a movement justified by its own supposed momentum – a hundred years later it's now convenient for some to assert that there is an unstoppable and inevitable swing against liberalism.

But while the Brexit and Trump net votes are big, they are not overwhelming.

### **Echoes of Brexit and Trump**

Even if the left-right aspects are blurred, there is a clear regional dimension to these votes, however. In the UK, London voted strongly against “Brexit”; in the US the map of the Clinton vote [fits neatly](#) with the map of urbanization; in the recent [Austrian presidential election](#) Salzburg and Vienna voted strongly for the liberal Van der Bellen, while rural southeast Austria supported Norbert Hofer of the right-wing populist Freedom Party. In Poland support for the authoritarian prime minister Viktor Orban is strong in the countryside and weak in Warsaw. In Egypt much of the political tension is between relatively secular urban dwellers and rural religious fundamentalists.

In our own federal election last year, while established parties – the Coalition, Labor and the Greens – held 90 percent of the vote in urban areas, in “provincial” electorates (as defined by the Electoral

Commission) their vote was down to 87 percent and in “rural” electorates 81 percent, where a Melbourne Cup field of independents and small parties gained the balance.

There is nothing new about urban/rural divisions. Cities, particularly ports, are where merchants trade with foreigners, where places of higher learning are located, where governments keep their bureaucracies, and generally where immigrants first arrive and settle. They are where the economic liberalism of market capitalism and the social liberalism of public servants and scholars come together – not entirely harmoniously but with enough common ground to ensure peaceful co-existence. And they are where, through market or political power, so-called elite groups have been able to do so well for themselves materially.

The divide between prosperous coastal cities and the rest is particularly strong in the US because inland America includes what were once the world’s great economic powerhouses – including auto manufacturers of the Great Lakes area and steel mills of Pennsylvania. These are where manufacturing workers, who once held well-paid and well-respected jobs, have become unemployed, or if they have found work it’s been in poorly-paid and insecure service-sector jobs, without benefits such as health insurance and pension plans.

For American manufacturing workers the unquestioned and assumed contract in the postwar era was that if you worked hard and were loyal to your employer that loyalty would be returned in terms of job security. Those who had put their faith in that contract feel betrayed and duped, particularly when they have seen how the executives of those same corporations have looked after themselves so well while sacking thousands of workers, and when they see public servants, in their relative security, view economic change only in terms of a few figures produced by the country’s statistical agency. Aggregated figures on income, unemployment and other indicators, so often cited by government ministers, tend to average out huge changes within particular regions and groups.

### **Australian echoes**

In Australia these changes have not been as brutal as in the US, because the transition from a manufacturing job to a service sector job, thanks to a relatively high minimum wage, does not involve such a sharp drop in pay, because health insurance is provided by the government rather than being tied to employment, and because our industrialized regions are mainly in or near the coastal capitals. (Gladstone and Whyalla are telling exceptions to the rule: it’s notable that in



Whyalla

Whyalla the Xenophon candidate gained two thirds of the two-party vote.)

But there is the same sense of betrayal, regardless of location. Even if people accept that technological change and import competition are inevitable, they see no reason for other assaults on the working conditions of wage and salary earners. These assaults include the easy use of 457 visas for temporary workers, lax enforcement of minimum pay and conditions in horticulture, small business and franchise chains (particularly convenience stores), and general attacks on the union movement.

Also, there is a strong historical attachment to manufacturing and other industries involving transformation of physical products, including agriculture and construction. In the US a popular stereotype of the service sector is “flipping hamburgers”, presumably for minimum pay. In Australia Barry Jones once quipped that we don’t consider any activity to be of value unless it’s to produce something that hurts when you drop it on your toes.

Historically, going right back to the days of the early industrial revolution, a manufacturing base was a sign that a country had “made it”. The American War of Independence was in part a reaction against the so-called “Navigation Acts” that had the effect of suppressing colonial manufacturing activity. Here in Australia at the time of Federation development of manufacturing was the path to the development of a well-paid working class. The [1948 picture](#) of Prime Minister Chifley standing beside the first fully Australian-made car to roll off the assembly line – the FX Holden – was a symbol of our status as a truly “developed” country. There is a great deal of emotional investment in manufacturing.

### **Australia’s own discontent – what happened to the “fair go”?**

While we have not had such a relatively strong manufacturing decline as the US or the UK, and our regions are less unequal, there are two areas where Australians have probably had a rougher ride than their counterparts in other countries.

The first has been the wild swings in our exchange rate, a result of our commodity dependence and a lack of policies to help stabilize the economy from such dependence. All trade-exposed sectors – manufacturing, agriculture, tourism – have been buffeted by exchange rate swings. Some young people have ridden the waves of opportunity, taking highly-paid but insecure basic-skill jobs in mining, but others, more rooted to their communities, have experienced nothing but costly personal and business disruptions.

The other has been a policy obsession with competition. Somehow our policies switched from an oppressive paternalism in the postwar years to a gung-ho enthusiasm for competition, without ever pausing on the way to examine if there was a point at which the costs of competition started to outweigh its benefits. Many industries – utilities, retail, government-funded community services – have been subjected to vigorous competition policy. Workers, contractors and investors don’t know if their outfits will be in business once the next tender is evaluated – in a process subject to gaming, lowballing, and impression management. It’s as if policymakers have come to see competition as an end in itself, rather than as a means to economic efficiency.

Perhaps the greatest loss in Australia, felt by so many people – including some who themselves have prospered – is the loss of the “fair go”.

The “fair go” and “egalitarianism” are overworked myths – ask any woman, aboriginal person, or prospective Asian immigrant how they experienced Australia in the postwar years and if they



benefited from a “fair go”. But by most measures Australia has become a much harder and more unfair society in the last 35 years, and, as in the US, the people most sensitive to this change are those who in the US would be classified as “white men”.

We thankfully don’t have such categorical racial descriptors, and we don’t have the toxic legacy of slavery, but there are many men, particularly in rural Australia, who have witnessed what they see as minorities – recent immigrants, women, aboriginal people, even their own children who have fled the rural roost – getting ahead while they themselves are standing still. A false impression that minorities are doing well is reinforced by well-publicized success stories, another instance of the representativeness bias at play.

Those who mourn their loss of relative status may seem to be unreasonable – after all it’s simply a replay of early colonial days when many emancipated convicts leapfrogged over the class system – but their sense of loss is tangible.

Political research shows that when a group loses its relative status, its members are likely to become resentful. In the old “developed” countries there are many who have lost in relative status. It may be that their old status was one or two steps above immigrants, who had their place in jobs native Australians felt were below their dignity – unpleasant work such as cleaning, or boring work on the assembly line. When immigrants and their children, particularly if from non-traditional sources, started occupying prestigious professional roles, those fragile markers of class superiority were lost.

These are the resentments manifest at the ballot boxes. But why have they taken the particular, apparently self-destructive path, of support for populist movements which promise so much but can deliver so little? That’s covered in the next section.

## Brexit, Trump and the Lucky Country 2 – The response of those left behind

*It would be hasty to attribute the Brexit and Trump votes to a “swing to the right”, or to an ill-informed electorate. The most compelling explanations are in terms of protest votes. People’s anger of electorates has given an opening for political opportunists.*

When we try to understand the Brexit and Trump votes through the lens of the economic assumption that people vote in line with their narrowly-defined self-interest, they make no sense. Why did so many poor people in rural America vote for someone whose policies will take away their benefits under the Affordable Care Act and give tax cuts to corporations? Why did voters in Wales, which has done so well out of the EU, vote so strongly for Brexit? In Australia why did so many rural voters vote for One Nation and Xenophon, when these parties have protectionist platforms, and we know that protection hurts rural interests the most?

### Is it about education?

There are inevitably people who will put these votes down to bucolic stupidity, and they may even claim to have supporting evidence. In the US the Trump vote was highest for those [without college education](#), and in Australia the One Nation vote was [highly correlated](#) with low tertiary education.

But to suggest that living in the bush leads to crankiness, or that the rural support for Trump, One Nation et al is a manifestation of ignorance, is as fallacious as it is offensive, because it confuses correlation with causation.

And we should beware of the limit of “education” as an indicator of people’s intelligence or their capacity to see through political charlatans. Farming, for example, is an intellectually demanding occupation, but it does not require a trade certificate or a university degree as an entry permit.

Education correlates strongly with income and wealth, which means those correlations between education (or the lack of it) and the vote for Trump or One Nation are probably simply another presentation of the attraction of those parties to those who feel, or know, that they have missed out.

Also it’s easy to forget that among Americans and Australians of all classes education levels have risen over the years. It’s a fair proposition that the people who voted for Roosevelt in 1932, and for Whitlam in 1972, both well to the left of Clinton’s Democrats, had far fewer years of schooling than those who voted for Trump in 2016.

A more compelling explanation is in terms of economic conditions: people without post-school education and people who live outside the big cities tend to be those who have not enjoyed a fair share of the benefits of economic growth, and their education opportunities have been limited. In non-metropolitan regions these conditions are thrown into starkest relief, but they’re present even in our inner cities – regions full of opportunities for an able young person with a double degree in law and engineering, a trade skill in demand, or a PhD, but places of struggle against housing costs for those less qualified.

### **The politics of the protest vote**

A compelling explanation of the Brexit and Trump votes is that they are voices of protest. The Australian psychiatrist and local government politician [Tanveer Ahmed](#) says that they come from people gripped by a free-floating anger that will latch on to anything that happens to be nearby. We all know that feeling and how it can override our rationality. So gripped, we often do really dumb things. And sometimes we knowingly bear a cost to give vent to our anger.

There are probably British people who voted Brexit, even though they knew it was not in their nation's interest, because they were upset at the way successive governments had negotiated EU arrangements. There are probably Americans who knew that Clinton's policies would be better for their individual and collective interests than Trump's, but who were really annoyed – at the way the Democratic Party machine had crushed Sanders, at the notion of the Clintons as a presidential dynasty, at her husband's deals with Wall Street, or at her all-too-scripted public presentations.

The phenomenon of “costly punishment” is well-researched in behavioural economics – the branch of economics that considers how and why people actually make decisions, breaking from the assumption that people make “rational” decisions in line with their calculated individual self-interest.

If we drive across town to avoid the local merchant who is ripping us off, even if the cost of the travel is more than the ripoff, we're engaged in “costly punishment”. The benefits of such behaviour accrue to society, not to the individual. They may bore us at Christmas parties, but we all have a debt to the assiduous shoppers who spend hours looking for a saving of a few dollars, and who go out of their way to complain about minor defects in products and services.

Another explanation offered by [Paul Williams](#) of Griffith University is that the Brexit and Trump votes, rather than being made in a fit of rage, can simply be a way of signalling “we want change” – change that goes beyond the constrained offerings of the dominant political parties. These voters can include people who knowingly take the risk of voting for demagogues in the belief that they will not get over the line (another risk with opinion polls), or that if they do get over the line the system's checks and balances will contain them.

Although “small government” advocates – Reaganite Republicans in America and Liberals here – have tried to latch on to this discontent, it is hard to find evidence that disaffected voters support a right-wing or “small government” agenda. There is no credible movement in the bush calling for less spending on roads, schools, broadband, dental services or local hospitals. This is something members of the National Party know too well, and as successful independents such as Cathy McGowan and Bob Katter remind them, they know that their survival would be threatened were they to align too closely with the economic dries in the Liberal Party.

### **Not much evidence of a swing to the right**

Whether the Brexit and Trump votes reflect a protest or a desire for change, the message is still one of dissatisfaction.

If there is such dissatisfaction in Australia – and in Part 5 we will look at strong evidence that people aren't happy with the governments they have elected – there's no reason to see it as a swing to the “right”. It's easy to draw on recent examples of support for right-wing parties, but less than two years ago Greeks, for example, were voting strongly for the far-left Syriza coalition.

As pointed out many voters in the country have voted against the main parties, but even One Nation's preference flows are only mildly biased to the Coalition, and the Xenophon philosophy seems to be distinctly centrist.

A plausible explanation is that country people feel that decision-makers in Canberra and in distant state capitals have forsaken them. Naturally their annoyance is directed against politicians and public servants, but it is also directed at bankers, stock and station agents, insurers and others in the private sector. The talk in country pubs may be laden with expletives about bureaucrats in Canberra or the state capital, but the same angry people, in the next breath, will sing the praises of the local schoolteacher, police officer or nurse. Similar sentiments are to be observed, in a more muted form, in the outer suburbs.

That may read like a rationalization for the politics of Trump, One Nation and other populist movements, as if they are simply filling a space vacated by traditional political parties that once represented the interests of those without economic power.

But there is a difference between the current populist movements and the traditional social-democratic parties. Both can ride on people's legitimate feelings of loss and betrayal, but the populist movements channel (and intensify) their supporters' anger not at the real sources, which would mean acknowledging and dealing with all the tradeoffs of public policy and issues of shared responsibility, but at convenient scapegoats. And they are offering simple solutions to complex problems.

### **The allure of simple solutions**

As Henry L Mencken said "to every complex question there is a simple answer, which is invariably wrong".

Misdirected anger is usually ugly. Racial and ethnic minorities are often the targets. And it's generally highly dysfunctional.

As [Ron Heifetz](#), Professor of Leadership at Harvard's Kennedy School points out, when we are facing complex problems – problems that may require difficult adaptive change – it is tempting to go for simple solutions.

One "solution" is a retreat to an imagined past when everything was better. When aboriginal people knew their place, when immigrants were "white" and earned their place by taking the most unattractive jobs, when homosexuals lay low and hid their shame. It's easy to level the "racist" charge against those who express such feelings, but they will quickly retort with praise for the local Iraqi-born doctor, or the lesbian women who have started a local business. It's about fear of the unknown, not the known. That fear is easily exploited by those unconstrained by morality or a respect for the truth.

Similarly there are retreats to conservative symbols. It is notable, for example, that Australian support for retention of the British monarchy has tended to harden as inequality has worsened in recent years. And it is notable that some of the most strident anti-multicultural groups wrap themselves in the Australian flag, to distinguish themselves from those who find it a relic of a colonial past. Seemingly "permanent" symbols give succour to those who are fearful of change.

Another "solution" is to throw dependence behind a "great leader". One who exudes authenticity and charisma. (To misquote Yogi Berra, "If you can fake authenticity, you've got it made".) One who speaks with authority, in plain language. It helps the "great leader" if popular media are conveying

the same messages. These are the “leaders” who exude self-assurance and self-confidence, in contrast to the uncertainty and doubt of the disciplined intellectual who knows just how complex the world really is.

A variant of this “solution” is a retreat to authority, such as in the simple creeds of evangelist Christian movements, whose ranks have swollen as membership of mainstream Catholic, Anglican and Protestant religions have fallen. An extreme manifestation of retreat to religious authority is to be found in those disorientated and alienated young people who become attracted to militant Islam.

Nigel Farage, Donald Trump, Pauline Hanson and other populists haven’t been urging their followers to kill infidels, but they have been active in nominating (sometimes imagined) scapegoats for their nations’ troubles – EU bureaucrats in Brussels, hordes of Mexicans crossing the border, Muslims lined up to enter Australia and bring in Sharia Law.

And of course there is the scapegoat of globalization.

## Brexit, Trump and the Lucky Country 3 – Globalization takes the rap, unfairly

*Globalization has been only one of the developments that has led to widening inequality and social exclusion. Countries that have globalized have also introduced a raft of neoliberal domestic policies, against which people are reacting.*

It's easy to blame "globalization" for a host of ills. The term itself is ambiguous, except insofar as it implies some party remote from our shores. Steel mills in China, bankers in Switzerland, multinational firms without fixed abode.

As such the term can provide useful cover for unpopular policies that are entirely home-grown.

The term generally refers to economic openness – to trade, investment, immigration and ideas. It's meaningless therefore to refer to "globalization" as if it is a single property, but there have been times when prevailing norms of international behaviour could be described as more or less open.

We could go back to histories of the merchants of the Hanseatic League, or even further to aboriginal people trading in grinding stones and pituri, but a starting point for current consideration is 1944, when representatives of the soon-to-be victorious allied powers came together in Bretton Woods, New Hampshire, to hammer out a postwar economic order.

The background to the conference was the failed peace of 1918, and the isolationism and protectionism that had seen countries, each trying to pursue their self-interest, driving one another into a worsening depression and contributing to the horrors of another war. As Joseph Nye describes it:

With their countries drawn into the conflagration despite their efforts to avoid it, Western officials spent the first half of the 1940s trying to defeat the Axis powers while working to construct a different and better world for afterward. Rather than continue to see economic and security issues as solely national concerns, they now sought to cooperate with one another, devising a rules-based system that in theory would allow like-minded nations to enjoy peace and prosperity in common. ("Will the liberal order survive" *Foreign Affairs*, January/February 2017)

Australia was fully engaged in Bretton Woods. Our delegation included some of our most influential postwar economists – Leslie Melville, Arthur Tange and Frederick Wheeler.

From the Bretton Woods Conference emerged a number of cooperative institutions – the IMF, the General Agreement on Tariffs and Trade (later to become the WTO), and the World Bank. The spirit of such cooperation was also behind the Marshall Plan for the reconstruction of Europe, and the European Coal and Steel Community, later to morph into the European Common Market and eventually into the European Union.

The important point is that the post-1945 economic order, that saw such leaps in prosperity in all "developed" countries including Australia, didn't just happen. It rested on a spirit of international cooperation supported by rules by which countries were expected to abide, and on domestic policies designed to ensure what we would now call "inclusive growth".

Notably, in order to avoid countries engaging in the mutual destruction of competitive devaluations, an outcome of Bretton Woods was a *de-facto* regime of fixed exchange rates. Fixed exchange rates work only so long as countries pursue the same pace of economic development, and that system started to fall apart in 1971, but the general cooperative arrangements remained intact, and the general path continued to be towards global economic openness.

Also by the 1970s “developing” countries were taking advantage of a liberalized trading environment to become involved in export-oriented manufacturing, initially in labour-intensive industries, most notably clothing and simple metal fabrication. These industries were to be the first step in lifting many countries out of poverty. The “elephant curve” was starting to take shape.

Although Australia was comparatively slow to reduce tariffs, we were on a path of trade liberalization, with imports putting competitive pressure on our manufactures from the early 1970s onwards.

From 1970 to the end of the century effective rates of tariff assistance to manufacturing fell from about 35 percent to close to zero, manufacturing’s share of employment fell from around 25 percent to 15 percent (it’s now around 8 percent), and imports in relation to GDP rose from 12 to 21 percent. From 1972, for the first time in postwar history, the unemployment rate rose to above 2 percent, never to fall to such low levels again.

The easy inference is that globalization was to blame for the destruction of our manufacturing base, and if only we could reverse it we would restore those industries.

Such reasoning, of course, is subject to the *post hoc* fallacy, and it overlooks the impact of technological change – including the humble technology of the shipping container – and of automation.

Even in the unlikely event that our government were to re-erect a huge tariff wall, not much manufacturing employment would return. It’s only a matter of time before some of the last labour-intensive manufacturing processes, such as sewing clothing outerwear, is automated. And many goods traded around the world – software, designs, recorded music, code for 3D printing – don’t pass through any physical customs barrier. Automation is now on the verge of displacing many service industry jobs as well.

There were two reasons why in the 1980s Australian governments were able to steer through a successful program of reducing tariffs and associated industry assistance.

One was that the highest tariffs had applied to items of common consumption – clothing, footwear, domestic appliances and cars. Improved affordability of these items was a tangible benefit to most households (although some price reductions were undoubtedly due to stronger competition regulation, abolition of the old wholesale sales tax, and technological change).

The other was the Hawke-Keating Government’s management of the transition. It was a patient process, involving widespread consultation with all affected parties, often in roundtable sessions. Roundtable consultations engender trust between parties because everyone has to reveal their interests, and they help transform the development of policy from a win/lose bargaining model to a problem-solving negotiation. When governments rely on confidential deals with lobbyists they tend to be overwhelmed with reasons why reforms should not be pursued.

Also, to ease the transition the government took care to support the “social wage”, particularly through strengthening universal tax-funded health insurance.

If we come forward to 2017 it’s much harder to promote the benefits of open trade. It was easy in the 1980s for people to see the benefits of reduced tariffs on children’s shoes, but it’s much harder for people to understand the economy-wide costs of protecting local submarine production or requiring use of Australian materials in government projects, and it’s even harder for people to understand what are known as the resource misallocation effects and the general equilibrium effects of import restrictions.

This is content I have taught to postgraduate university students, and they don't find it easy. In an age when there is mistrust of "experts", it's hardly surprising that people are attracted to the simple prospect that tariffs protect jobs – it makes sense, doesn't it?

Also, in contrast to the Hawke-Keating period, strengthening the social wage isn't a priority of our present government. Even the Rudd-Gillard Labor Government failed to support Medicare, and did little to halt the rise in housing prices. It did boost education funding, but failed to embed the Gonski reforms. And the Hawke-Keating mechanisms of multi-party consultation are long gone.

Another aspect of globalization stirring interest at present is immigration, particularly temporary immigration on 457 visas. Whether they being are used as mechanisms to cut wages and to exclude local workers is an open question, but there are certainly concerns about their use. Australia's successful multiculturalism has been based on permanent settlement and integration and has been carefully managed. It's not clear whether policies on temporary immigration have been fully considered.

Then there's foreign investment in real estate – agricultural land and urban apartments.

Foreign ownership of agricultural land, particularly physically large holdings in the outback, has raised concerns. This is not a new development – as long as there has been European settlement in Australia there has been foreign ownership of land, and it now stands at about [14 percent](#) of Australia's total agricultural land – far less than foreign ownership of other important sectors such as manufacturing and mining – and much of it is leasehold.

The issue is emotive because land ownership is more tangible than foreign equity in corporations. There would probably be less concern if our governments took more control of land use generally, protecting the public interest in matters including tree clearing, water conservation, weed and feral animal control, soil degradation, and recreational and scientific access to land.

Foreign ownership of urban apartments is perceived to be pushing up housing prices for prospective Australian homeowners – a perception that's probably right. But if the Commonwealth instituted a few simple taxation reforms to improve housing affordability, foreign investment would probably not be an issue.

Perhaps the greatest threat facing the idea of economic openness is that "globalization" has been used as a cover for policies that are quite at variance with the liberal principles of the postwar order.

Most prominent are so called "free trade deals", such as the now-stalled Trans-Pacific Partnership. These deals are negotiated in great secrecy, which naturally leads to suspicion. When they include clauses that are seen to place the interests of multinational firms above those of Australian citizens they are even more unpalatable. Investor State Dispute Resolution, shielding foreign corporations from domestic legislation, is particularly odious. So too are provisions that may require countries to reduce their environmental and safety standards, in order to harmonize them with the parties with the lowest standards.

These deals are a long way in spirit and practice from the GATT and WTO systems, which were specifically designed to provide smaller countries some countervailing power against larger states.



### Globalization and neoliberalism – an unnecessary connection

Somehow, it seems, “globalization” has become a term to cover a whole gamut of policies, sometimes called the “Washington consensus”, covering privatization, fiscal austerity, contracting out government services, deregulation, and other *domestic* policies. The Washington consensus itself has roots in a set of beliefs that emerged from the “[Austrian School](#)” of economics (Friedrich Hayek as the most prominent), that went on to become influential in some of the world’s leading academies, including the University of Chicago and our own ANU, from where so many public servants are recruited.

Although it has its variants, its philosophical base is in the economics of individual (rather than collective) interests, and a belief that economic liberalism, social liberalism and even democracy are inextricably linked – you can’t have one without having the two others.

If governments can say that policies such as privatization and deregulation are all part of the package, it gives them a “there-is-no-alternative” cover, exempting them from the difficult tasks of justifying or even explaining these policies.

And it’s convenient to blame foreign influences or foreign institutions for unpalatable policies. In doing so, however, governments inadvertently reinforce the image of some malign, undemocratic and unaccountable foreign source power remote from our land, fuelling domestic paranoia.

Privatization, for example, [is unpopular](#) for many reasons. Australia’s postwar growth was built on a successful mixed economy model, and governments have never explained why they have been so intent on demolishing that model. Some government business enterprises, of course, became inefficient and some were undercapitalized, but rather than pursuing reform of these enterprises, governments went for privatization.

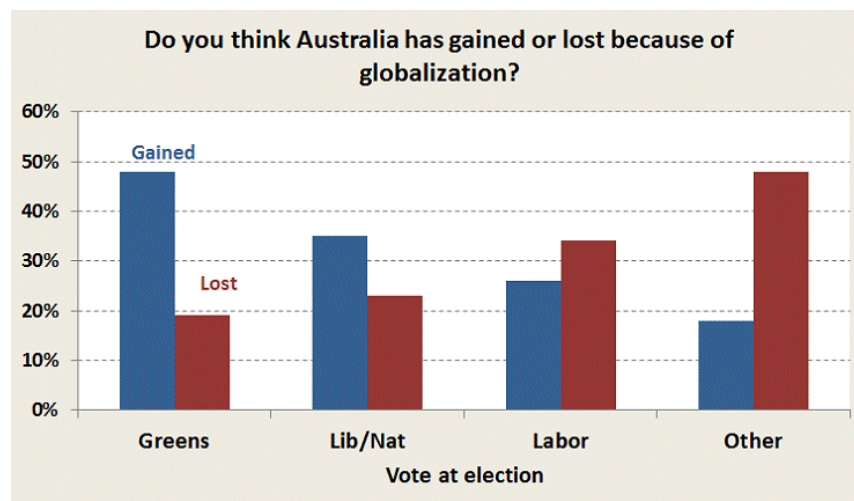
One doesn’t need an honours degree in economics or to have studied theories of the cost of capital and deadweight loss to know that there is something wrong with using high-cost private finance to fund community infrastructure, or with putting a toll road in the middle of an otherwise “free” road system.

Privatization in most cases has seen public bureaucracies replaced with even more burdensome and unaccountable private bureaucracies. Privatization also involves a sense of loss, and quite often it’s a foreign firm that takes over the privatized asset.

When community assets pass to foreign hands blaming the foreigners is a misdirection of anger. Australian firms owning assets such as toll roads and airports are just as adept at abusing their monopoly status – price gouging, indifference to customers, false and misleading conduct – as multinationals. Unfortunately governments, state and federal, have tried to deflect anger at privatization by focussing on foreign ownership issues rather than on privatization itself.

So it’s not surprising that when in mid-2016 an [Essential poll](#) put the question “Globalisation is the increase of trade, communication, travel and other things among countries around the world. In general, do you think Australia has gained more or lost more because of globalization?”, the answer came in a form that cuts across traditional left-right stereotypes.

The most enthusiastic champions of globalization were those who voted Green (strongly positive), followed by Coalition, Labor and “Other” (strongly negative) in that order. It’s an order that seems to reflect people’s lived experiences, from young and well-qualified urban “Green” voters, many of whom consider themselves to be citizens of the world, through to rural voters for non-mainstream parties – voters who feel most knocked around by structural change.



Therefore it's reasonable to ask the broad question, "are people really rejecting globalization or are they rejecting its extension into domestic policies that favour corporations over people, that hand the community's assets over to private companies, that unnecessarily subject people to insecurity, and that widen income and wealth inequality?" In other words, the excesses of neoliberalism.

Or, in a more positive sense, it's hard to imagine that people do not want international institutions and rules protecting fair trade, supporting financial stability, protecting consumers in cross-border transactions, ensuring freedom of air and sea navigation, protecting global public goods such as fisheries, and helping combat destructive climate change – to name a few practical outcomes of globalization. (There is even the suggestion that some British voters voted for Brexit because they saw the EC as too insular in comparison with the old British Empire.)

Contrary to way it's been seen by both its proponents and opponents in recent years, Globalization is not and should not be a take-it-or-leave-it package. Harvard's [Dani Rodrik](#) points out that idea of managed globalization that underpinned the Bretton Woods arrangements has tended to give way to the idea of "hyperglobalization", involving removing restrictions on financial flows and yielding countries' sovereignty on domestic policies to the demands of global capital. He reminds us that the countries that have done so well in lifting themselves out of poverty, including South Korea and China, "engaged globally in a selective, strategic manner".

Had we in Australia engaged more sensibly with foreign investors in the 1950s and 1960s it is possible that we could now have a competitive auto industry, with one Australian-owned firms achieving scale economies for a world market.

"Globalization", the constrained and carefully-managed liberal order that emerged from Bretton Woods, now suffers from guilt by association. That is, association with the extremes of domestic neoliberalism and of unrestrained international finance. When "globalization" is presented as a take-it-or-leave-it bundle there is a risk that people will reject it, thereby rejecting those aspects of globalization that bring benefits to all.

Globalization is too glib an explanation for people's discontent. But so too is class division, and it may help our understanding of the issues if we re-frame them in terms other than in traditional "liberal/reactionary", "progressive/conservative" and "left/right" terms.

## Brexit, Trump and the Lucky Country 4 – Issues re-framed

*Contrary to some interpretations, the trend in “developed” countries is still towards social and economic liberalism. But there is a strong reaction against the social exclusion that has accompanied liberalization. The economic models that guide public policy are not up to the task of dealing with exclusion.*

“All pessimism has an air of authority” said JK Galbraith, when, with the rise of Reagan and Thatcher, many liberals were talking about a retreat to a pre-Enlightenment era.

In interpreting not only the Brexit and Trump votes, but also Turkey’s march towards fascism, the success of authoritarian anti-liberal governments in Hungary, the Philippines and Poland, and the rise of anti-secular Islam movements in Indonesia and Malaysia, many political scientists are saying that liberalism is under existential threat.

Australians and Americans now in their middle age, having lived through so many social and economic reforms, may see liberalism as a one-way process, without realizing that it has had many setbacks from which it has re-emerged. Their parents would remember the anti-communist witch hunts of McCarthyism in America, and the push for an amendment to the Australian constitution to ban the Communist Party. Their grandparents would have remembered the rise of Nazism and fascism which in the pre-war years had strong support in the US and the UK, and they would remember US isolationism in the 1930s. D H Lawrence’s 1923 novel [Kangaroo](#) gives an account of nascent extremist far-right politics in Australia, which in the 1930s was to flourish (briefly) as the [New Guard](#) movement.

Federation was fought largely around the issue of White Australia, which brought together a coalition of those who wanted to prevent Australia becoming dependent on cheap foreign labour and a larger group of outright racists. George Megalogenis in his book [Australia’s Second Chance](#) points out that in the period from the gold rush up to 1890 Australia was a much more liberal, open and confident society than it was to become in the 1890 to 1945 period.

It hasn’t been a one-way street.

### **Liberalism is still in good health**

Once more, anti-liberal movements are almost certainly [on the rise](#) in many countries, but that doesn’t necessarily mean they are dominant, because there is also evidence of continuing and growing support for liberal causes. Polling by America’s [Pew Research Center](#) on attitudes to the death penalty, same-sex marriage, immigration and drug legalisation shows no abatement in a trend towards more liberal attitudes.

Only on race, a particularly sensitive topic in the US, are the results ambiguous, but what at first sight appears to be racial intolerance is often intolerance of cultural practices identified with a “racial” group, rather than dislike of a person’s skin colour or facial characteristics. As pollsters point out, many people who voted for Obama in 2012 voted for Trump in 2016. One would be hard-pressed to identify Obama with what Americans see as “black” culture. Also in the din of the Trump victory it’s been easy to overlook the liberal swings in the Canadian and Austrian elections. And in many countries what may look like a “racial” issue actually turns out to be about language groups.

In Australia the 2016 [Australian Election Study](#) continued its time-series research on attitudes to censorship, abortion, legalisation of marijuana, toughness on crime, race and gender discrimination,

asylum-seekers, immigration and climate change. On all but one of these issues the survey has found a continuing trend towards more liberal attitudes. (Gender discrimination is the only issue showing some ambiguity.)

As in any contested realm, just because one side is growing in strength doesn't mean the other side is weakening.

A tentative conclusion is that perhaps the issues in the "liberal/conservative" or the "liberal/reactionary" divide are becoming more salient. There is indeed a right-wing reaction against liberalism, but that doesn't mean it's dominant; indeed it may be because of the success of liberalism that the reaction has become so strident.

Also it would be over-simplifying to refer to one clear-cut division, because there are many threads of dissent. For example in both the US and Australia there is a libertarian movement, which in our country finds some common ground between the Sex Party on the left and the Liberal Democratic Party on the right.

### **Exclusion, deprivation and division**

The main issue driving the reaction seems to be exclusion, and while figures on income and wealth inequality provide statistical evidence of widening economic disparities and exclusion, it would be a mistake to see exclusion only in monetary terms.

By combining a number of indicators – including income, employment, education, skills, health, crime, housing, access to services, and living environment – the UK Government has developed an indicator of "[deprivation](#)". [Alasdair Rae](#) of the University of Sheffield, using small region data, studied the relationship between "deprivation" and the strength of the Brexit vote. He found that while the relationship was not strong it was far better than income as a sole indicator, for which he found no correlation. As with the American studies on the vote for Trump he found that the strongest relationship was with education, specifically higher education – or more specifically a lack of it, as mentioned in Part 2.

Higher education may be a proxy indicator for difficult-to-measure properties not picked up in the "deprivation" index. Official statistics, for good reason, tend to shy away from subjective indicators. Higher education can provide a path to social connections, to self-confidence and to the ability to navigate one's way through change – all benefits not necessarily closely linked to formal university curriculae. It's almost certainly a path to employment with social prestige, particularly in countries such as the UK where there is a [more stratified](#) class system than in Australia.

It may also be that school education alone doesn't adequately equip people with the skills to assess arguments – to detect lies, sophistry, untestable assertions, bullshit and casuistry. Again, drawing on my own experience as a university teacher, I have been surprised to find how few students, who have obviously completed high school, are familiar with the basic disciplines of syllogistic reasoning, for example.

These are essential skills, not only for democratic participation, but also for living in a world where one has to make day-to-day decisions in markets. It's understandable that there would be commercial interests opposed to people developing such skills, because scepticism and the capacity to make one's judgement dulls the effectiveness of advertising, but in a democracy they should be regarded as no less essential than literacy and numeracy.

The reaction against liberalism stems from a complicated set of causes. That may sound a little glib, but it's questionable whether policymakers in London, Washington or Canberra understand just how complicated it is, let alone whether they can make some sense of that complexity.

In his 1998 work [Seeing Like a State](#) James Scott of Yale University points that the policymaker – the public servant, the minister, the political strategist – has a reductionist model of the world, a model seen through a set of simplified indicators.

One aspect of that model is summarized in the already-mentioned aphorism “a rising tide lifts all boats” (or at least doesn't result in any of them sinking). As Miriam Lyons and I describe in our work [Governomics](#), the idea that inequality doesn't matter (just so long as no one goes backward), known in economics as the “Pareto” model, has been dominant in our universities and bureaucracies for many years, along with the idea that people vote using the same economic criteria as they approach private markets (“public choice” theory). Both beliefs have their roots in the “Austrian School” of economics, referred to in Part 3.

But inequality and exclusion do count. To have one's material living standards frozen at a certain level while most other people go ahead hurts. And even if one's material standards are looked after, social exclusion hurts. That's an area where commonsense and social psychology align. Surely politicians and public servants who advise them know this in their family, social and workplace relationships, but in the official realm they so often resort to their reductionist model of a “[one dimensional man](#)”, to use Herbert Marcuse's term in his 1964 book of that name. That dimension is the market dimension, where people trade goods and their own labour – a dimension that ignores all other human values and relationships. But as the Austro-Hungarian philosopher [Karl Polanyi](#) pointed out in 1944, we live in a society, not in a market.

In Britain some policymakers seemed to be surprised that in the de-industrialized regions, where governments had spent so much on adjustment assistance, and where Britain's social security safety net had provided a reasonable backstop by that country's standards, people were so ungrateful as to vote for Brexit.

But that's to misunderstand, or at least to underestimate, the value of work – the opportunity to develop one's capacities and to use them to socially productive ends. That's what gives meaning to people's lives, and is what earns respect – the knowledge that one is contributing and that one's contribution is valued.

Even in a situation where social security payments could substitute for the income from employment, those who become unemployed would still be suffering significant loss. That loss would include the indignity of becoming dependent on “welfare” with its connotation of an inability to provide for oneself and one's family.

That situation is not hypothetical. As income disparities were widening during Australia's mining boom the Howard Government introduced a number of means-tested family assistance provisions. It's unlikely that they thought about how proud people who enjoyed the sense of self-reliance associated with independence from the social security system felt when they had to enrol in Centrelink for “welfare” benefits.

To draw once again on behavioural economics, it's fallacious for a policy analyst to bring losses and gains to a common monetary metric, and to conclude that so long as the monetary values of gains exceeds the monetary value of losses, all is well. That's not how people perceive gains and losses. People almost always put far more weight on losses than on gains. As a thought experiment,

consider the way you would feel if on the same day you had \$100 stolen from your purse and received an unexpected extra \$100 in a tax refund.

An *Economist* [editorial](#) summed up the weakness in the idea that a few social security payments could compensate for neoliberalism's disruptions to people's lives. It said "[economic] liberalization should generate gains large enough to make everyone better off, so all we need to do is liberalize and then redistribute some of the gains to the losers. That's clearly missed some important dynamics."

Those dynamics have to do with the value of work, of respect, of people's knowing they are doing something useful. And they're about the value people attach to living in a productive, thriving community. We can imagine the feeling of the former factory worker who, every morning on her way to her new unskilled job, drives past the rusting plant where she used to be part of a team making something. One doesn't have to have a fine aesthetic sense to know the depression of being surrounded by physical and social decay, where, to use Henry Lawson's term, the atmosphere is "past caring".



Wilcannia

If our government is serious about developing a dynamic economy – an “agile” one capable of anticipating and responding to opportunities in a competitive world, it has to work with the community to make sure that everyone understands that such dynamism will involve disruption for many people, and to make sure it has a way of helping people navigate their way through that disruption.

Otherwise, if people are left to bear the costs of that disruption they will react negatively. Some will do what they can to resist change – as we have seen that resistance finds an outlet at the ballot box. Some will give up, and resign themselves to unemployment or underemployment, even though they may have many productive years ahead of them.

As Andrew Scott points out in his work [Northern Lights](#), a study of how we may learn from the Nordic democracies, the Danish Government, guided not only by a sense of decency but also by

hard-nosed economists who don't want to see human capabilities wasted, has placed a strong emphasis on supporting displaced workers through income support and re-training, as a way of reconciling employment and income security with economic dynamism.

### **The social wage – distribution with dignity**

This is not to deny the need for mechanisms of redistribution, but social security payments are not the only mechanism. There are ways of achieving redistribution while maintaining people's dignity. One is through progressive taxation: it's easy to forget that during the 1950s and 1960s in Australia the [top rates](#) of personal income tax were between 67 and 75 percent.

The other way is through attention to the social wage – a set of universal benefits in health care, education, housing and public goods, with or without subtly-applied means-testing. The material benefit is that a strong social wage acts as a buffer to cover some of life's essential expenses. The broader benefit is in social inclusion, particularly when there is no encouragement for those with means to opt out of sharing.

The economic philosopher [Thomas Schelling](#) won his Nobel Prize for his rigorous work on ways people interact and share with one another. He drew attention to public policies that could encourage or discourage social mixing. As his former Harvard academic colleague Robert Reich points out, however, it is becoming easier and easier for Americans to live in such a way that they rarely have to interact with people who aren't like themselves. Americans living in the liberal cities of the east and west coasts use the contemptuous term "flyover states" to describe inland America, the America that delivered the White House to Trump. From 10 km up you don't get much idea of what's going on below.

It's ironic that urban liberals are often classified as "cosmopolitan", but in reality many live in a small, contained world. Just because one's friends and acquaintances are scattered over the planet doesn't make one cosmopolitan if they're all much the same in their values and life-experiences.

While Australia isn't as starkly geographically segregated as the US, the same trends are in place here. There are strong country-city divides, and within cities the outer suburbs of our sprawling capital cities are quite different communities from the inner suburbs. A thirty year run of rising urban house prices, fuelled by tax breaks, has worsened geographic segregation. And as the more educated, articulate, politically-connected people have congregated in certain areas they have managed to secure what may be a disproportionate share of public goods, such as cultural facilities and metropolitan public transport.

There are now a number of residential gated communities in Australia, and many more that may as well have security gates because of their housing prices and lack of public facilities. Then there are metaphorical gated communities – private schools and private health insurance as a means to bypass the hoi polloi queuing for public hospital treatment. Although the Hawke Government initially supported the social wage strongly, by the end of Labor's 1983-1986 term in office support was waning, particularly as health Minister Richardson started to wind back support for Medicare.

It's 44 years since we have had compulsory military service as a mechanism of social mixing and shared experience. Church attendance, once an opportunity for social mixing, has declined. More people are sending their children to private schools – we have an extraordinary education policy that actually promotes social stratification. And with increasing prosperity the cross-country drive to other capitals or to tourist destinations has been replaced by flying. (Robert Reich who is now on the faculty of the University of California at Berkeley, maintains his Boston and Washington

contacts, but every year or two he drives across the land. Perhaps that's one reason he was better placed in 2016 than most liberals to see how American political sentiment was developing.)

*Crikey* editor Bernard Keane suggests that those on the right accept that "some form of binding social and cultural glue is still needed beyond material wealth – perhaps needed more than ever" . But rather than relying on re-establishing the social wage, and supporting mechanisms of social inclusion, those on the right are fostering division – "a tribalist demonisation of the Other". (*Crikey*, 23 December 2016.) There has been a general de-valuing of the collective – our common wealth.

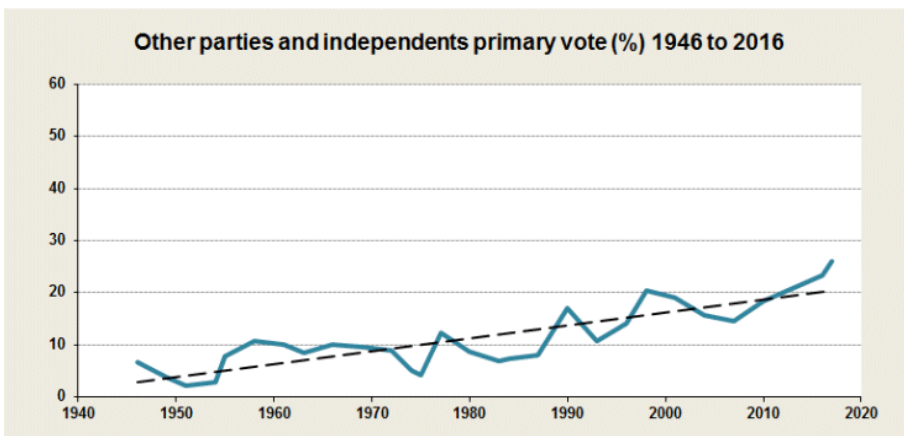
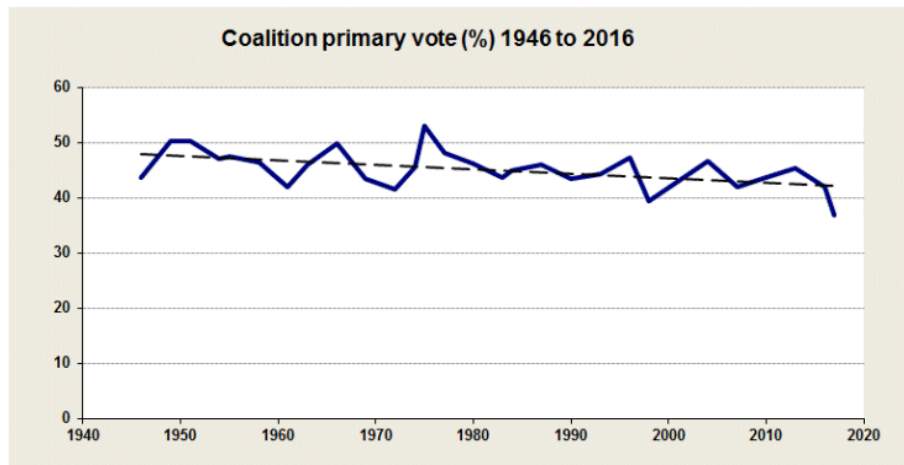
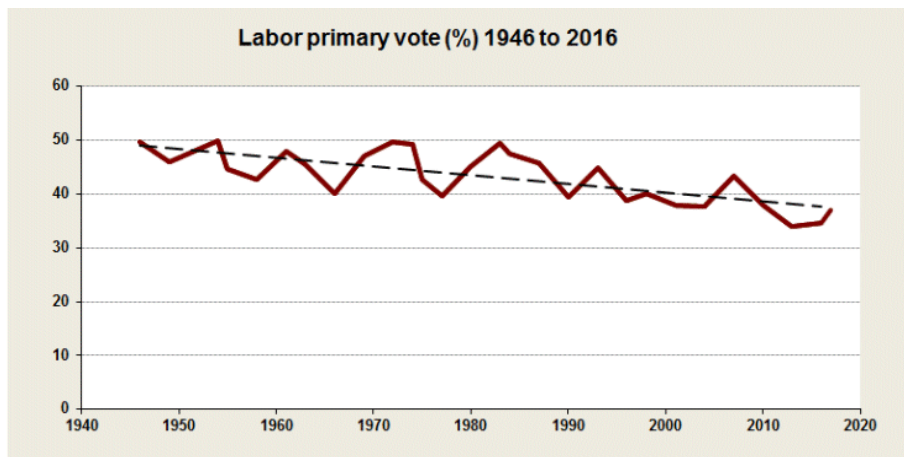
While we seem to be splitting into groups who have limited interaction with one another, there is also evidence that the relationship between people and the governments they elect has become more distant.



## Brexit, Trump and the Lucky Country 5 – How we lost trust in government

*We have lost trust in our governments and in mainstream political parties. Politicians, the media and corporate interests have been responsible for alienating governments from the people who elect them, creating fertile ground for populists.*

I'll start with three graphs that tell much of the story from an Australian perspective. They're easy to read, unless you're so deeply involved in the political "club" that you don't want to see what they so clearly reveal.



They are based on House of Representatives election results since 1940, when the present two-party system became established. (The final data points are taken from the most recent [Essential poll](#).) The Senate trends are even stronger: the major party groupings won only 65 percent of first preferences in the 2016 election.

There is an obvious turning away from the two parties, and at no time over this period has a government in office won 50 per cent or higher support in its bid for a second term. (Menzies almost made it in 1966 with a 49.9 percent primary vote for the Coalition.)

In the US long-term time series show Americans have been losing trust in government for 70 years, with the decline sharpest for the federal government, milder for state governments, and less so for local governments.

We don't have such long time series in Australia, but what evidence we do have, including that from the most recent [Australian Election Study](#), reveals similar trends here – falling trust in government (a strong trend since 1969), falling satisfaction with democracy (separate polling by the [Lowy Institute](#) finds only 39 percent of young people agree that “democracy is preferable to any other kind of government”), a strong and growing belief (now 56 percent) that “government is run for a few big interests” while fewer and fewer people (now only 12 percent) believe that “government is run for all the people”.

When Trump promised to “drain the swamp” it was not clear what creatures he wanted to remove, but Americans and Australians alike would welcome the swamp to be drained of corporate lobbyists and other influence peddlers. There is [strong public support](#) for reform, including a requirement for all politicians to disclose meetings with lobbyists, company executives and unions, immediate disclosure of political donations, and bans on donations by corporations and unions.

Special Minister for State [Senator John Faulkner](#) proposed a set of reforms along these lines in 2008, and while they certainly met with public approval they sank under a load of bipartisan resistance from the main parties.

The Australian Election Study finds declining attachment to political parties and less loyalty in voting intention. That's confirmed by the increasing tendency for governments, state and federal, to survive only one term, and for election results to swing widely.

### **Some people don't want us to trust our governments**

Trust in government hasn't fallen of its own accord. There are many business interests with a stake in the public idea that government is untrustworthy and incompetent. Promoting that view eases the path to privatization, leading in turn to lucrative corporate profits and high executive salaries, as has happened with water and gas utilities, toll roads, technical education and employment services. Now the corporate sector is reaching its tentacles into health care, where there is a growing and secure “market”.

And political parties of the right are wedded to the idea that small government is good government. In Australia the Liberal Party goes so far as to encode the notion that government is worthless in its [statement of beliefs](#), where it says “businesses and individuals – not government – are the true creators of wealth and employment”.

As [Noam Chomsky](#) said, it serves the corporate sector if people can be conditioned to hate government. People have to break from the old-fashioned idea about government as a provider of public goods and the custodian of the common wealth, and come to see government as some “alien force out there that’s stealing your hard-earned money”. That’s a long way from Oliver Wendell Holmes’ statement, carved above the doorway of the Internal Revenue Service Building in Washington: “Taxes are what we pay for a civilized society”.

It’s hardly any wonder that people are turning away from the main parties because they seem to be engaged in a war of mutually assured destruction. In the Commonwealth Government, the ruling Coalition approaches politics as if it’s a life-or-death struggle between themselves and Labor. In fact Coalition politicians often define their role as “keeping Labor out of office”, as if they are the ordained protector of all that is good and wholesome in Australia. (Labor doesn’t define itself in such terms, but it takes only one side to start a MAD war.)

To take a commercial metaphor, could we imagine the management of Coles, rather than promoting its own supermarkets, going all out to trash their competitor Woolworths, or vice-versa? They don’t, of course, because to do so would be to trash the whole market of established supermarket retailing, to the benefit of IGA and Aldi.

### **And the media have not helped**

The press finds it difficult to break out of the two-party model. So-called “crossbenchers” – a term implying some lessened legitimacy than members of proper parties – get media attention, but that attention is much more likely to be about their internal party scandals, and the gamesmanship in passing legislation, than about the policy issues they are bringing to the table. Consider, for example, the negotiations in late 2016 about the so-called “backpacker tax” and the Australian Building and Construction Commission bills. How much did we hear about any policy principles guiding these negotiations?

For the most part the press treats elections as a two-horse race, and as [Don Watson](#) says, “in a horse race no one cares what horses are thinking”. Labor National Secretary George Wright, before he quit politics to join BHP, used football metaphors to describe the political contest. It’s a telling metaphor, for to the detached observer (rather than the partisan fanatic), all football teams are much the same, and they certainly don’t exhibit differences in their ideologies or *Weltanschauungen*.

In the 2010 election campaign, when recently-deposed Kevin Rudd was sniping at Julia Gillard, ABC journalists focussed almost entirely on those leadership tensions, saying to the listening and viewing public that Gillard was unable to get her policy message out – without realising that they themselves were responsible for choosing to let the leadership tussle take precedence over policy issues. It was a subtle form of censorship.

Similarly in 2015, when Turnbull made two bids for leadership, successfully displacing Abbott on the second attempt, the focus was on the voting numbers rather than the contenders’ policy differences. To the public seeking to know about policy, either out of broad interest or to know how their own lives may be affected, it was like hoping that watching Shakespeare’s *Richard III* may give some insight into the Plantagenets’ fiscal and education policies.

It’s as if policy doesn’t matter, and that the political contest isn’t about ideas, but rather that it’s about the popularity of party leaders and the tensions and strategies in party politics.

While the [Australian Election Study](#) finds that the voting public has an increasing interest in policy – interest in policy issues having risen from 47 percent to 59 percent over this century so far – that rising interest has not been matched by a rise in policy reporting by the mainstream media. Even though people are turning to the Internet rather than newspapers and TV to keep themselves informed, sites operated by the mainstream media remain the dominant Internet-based resource.

Journalists, for all their expertise, seem to go to water when it comes to interviewing politicians on policy issues. Typically they will pose a question, but only on rare occasions do they re-present the question when the politician fails to answer it. Even experienced ABC journalists, who may be well-briefed, tend to stick to scripted questions, and almost always allow government politicians to have the last word. It's almost unknown for a journalist to ask a minister to explain one of their throwaway lines, such as Finance Minister Cormann's frequent references to the "budget mess that Labor left behind".

It's a game, and politicians and journalists both know the rules, which have little or anything to do with informing the public.

This is not to deny the existence of some excellent journalists in Australia, particularly in the Fairfax papers and the ABC. But the *Sydney Morning Herald* and the *Age* reach only around [seven percent](#) of the population of NSW and Victoria. And the ABC is constrained by its charter of "balance".

### **Orwell and the Australian political language**

Political spin, of course, is as old as the Code of Hammurabi and sophistry in Ancient Greece. George Orwell's novel [Nineteen Eighty-Four](#) and his essay [Politics and the English Language](#) are all about political spin. "Fake news" didn't materialize out of nothing in 2016.

But spin has been elevated to a new level, as politicians have been through media training courses, and as their myrmidons prepare carefully-crafted speaking notes and answers to possible questions, with words and phrases tested through focus groups, all with the purpose of making sure that the politician has to create an impression rather than actually conveying anything useful. (If our political parties had policies based on clear and consistent principles, rooted in shared values, politicians would be able to speak with conviction without the need to speak verbatim off prepared scripts.)

Every stratagem – sophistry, casuistry, convoluted logic, selectively chosen statistics, unfalsifiable statements, vague words – is used, short of what constitute outright lies in terms of formal logic. "We don't want people in this country who throw their children off a boat" (meaningless – of course we don't want such people). "The deficit will always be higher under Labor" (untestable). "Education spending has risen 80 percent under our government" (meaningless – no adjustment for inflation or growth in number of children at school). "Most terrorist attacks have been by immigrants from Lebanon" (easily misread as "most immigrants from Lebanon are terrorists"). And so on.

There is never an admission that a policy has failed, even when failure is glaringly obvious to all disinterested observers. The standout example is Australia's participation in the 2003 invasion of Iraq on the basis of the supposed existence of "weapons of mass destruction". There never were such weapons, and much of the present chaos and misery in the Middle East can be traced to the invasion and its aftermath. Yet those Australian politicians who made the decision have never admitted their error.

Other examples include policies on climate change (“direct action”) and housing prices. And most recently there has been the issue of Centrelink debt notices: both senior management and the minister are refusing to admit there is a serious problem with the data-matching system. But the media is complicit in this, because any policy change is portrayed as a “backflip” (to use an overused cliché) or “giving” in to the opposition. But we never hear business journalists criticizing companies for dumping dud products.

The language of government is straight out of advertising, and like most advertising it’s unconvincing.

It’s understandable that in today’s ultra-competitive environment over-worked journalists, in both commercial media and the ABC, go for the easy option of playing by the rules. Policy analysis is hard work, sometimes involving a great amount of mathematical analysis, and is often unrewarding. But journalists do themselves no credit when they simply re-present politicians’ protective cordon of spin. They contribute to growing distrust of the media.

And the politicians do themselves no favour either, for those cordons cut themselves off from the people with whom they should be communicating. Machiavelli, in his handbook of political advice for the Medicis, warned about the danger when those with political power surrounded themselves with sycophants and flatterers, but that is just what politicians do when they put out the welcome mat for lobbyists.

It’s telling that in response to all the evidence of mounting discontent, the Turnbull Government has not wavered from its economic agenda of further spending reductions (with only minor moves to improve revenue), and cuts in corporate taxes. It’s still the “rising tide lifts all boats – eventually” model. Instead of a long-term policy path, all we have is the slogan “jobs and growth”, and there is no indication of how these vague goals will be achieved.

It’s hard to see the rationality of this defensiveness – they’re like business executives who in response to consumer rejection of their product, spend more and more on advertising and marketing gimmicks until they go broke. Thomas Kuhn, in his [work on scientific change](#), observed such behaviour in various realms. He reminds us, for example, that the more Copernicus, Kepler and Galileo challenged the geocentric model of the universe, the more stridently did the adherents to that model defend it. Perhaps, in Australia at least, our political system is in a similar standoff.

Through evolution or as a gift from their creator, many people have been endowed with a bullshit detector, and a bias towards scepticism. They’re essential assets in a complex society. People can tell when a politician is reading from a script, when a newspaper article is a cut-and-paste from a government press release, when a lobbyist is spouting unqualified and unashamed self-interest. But like the last of the old absolute European monarchs, our politicians seem to be blissfully unaware of the extent to which they have cut themselves off from the communities they claim to represent.

It’s telling that in this season of political disillusionment the National Gallery has chosen to mount an exhibition of bric-a-brac (“treasures”) from the indulgent mob of supernumeraries who hung around the court of Louis XVI in Versailles, living in superb isolation from the French people. The exhibition opened on 9 December last year, exactly a week after the government, with full support from the opposition, announced that it was going to erect a [security fence](#) around Parliament House.

Fortunately for our politicians, in 2017 there is no guillotine erected in downtown Canberra, there is no Robespierre leading crowds of bloodthirsty Jacobins. They will ride out of Parliament House in a Commonwealth car rather than in a tumbril.

But there are populists waiting to take their place.

## **Brexit, Trump and the Lucky Country 6 – Who exploited discontent and how**

*A turning point in Australian political life was the 2013 election when Abbott set about destroying what remained of trust in government and of trust in social and political institutions, including traditions of dispassionate and objective inquiry.*

Those who study the mechanisms of people's interactions with one another often start with a model known as the "prisoners' dilemma".

It's about two crooks – let's call them Bonnie and Clyde – who have just committed a robbery. The police have caught them and separated them. The police are sure they did the robbery, but all they have by way of evidence is enough for a conviction for possessing stolen goods. So they offer bargains with payoffs:

- if they both remain silent, they both get one year in jail for possession;
- if Bonnie squeals on Clyde, and maintains her innocence, she gets off free, while he goes down for ten years – the same deal is offered to Clyde;
- if they squeal on each other, they both go down for five years.

Unless there's a high level of trust between Bonnie and Clyde, it's obvious what will happen. They will both squeal and go down for five years, whereas a one-year sentence would have been the best outcome for both of them.

It's a classic model of social cooperation, and in using a pair of crooks as a metaphor it places the idea of trust in a context separate from our moral norms: we probably think that they should both get long sentences.

If Bonnie and Clyde do resist the temptation to squeal on each other, after a short period (6 months with parole), they'll probably be back to a productive and cooperative life of crime. They'll get arrested again, but so long as they hold that trust all will be well.

Until one breaks and squeals.

From that point onwards trust is very hard to re-establish. Trusting relationships are fragile, while untrusting relationships have their own dismal permanence. That holds in many spheres, including the political sphere.

### **Trust, once broken, is hard to re-establish**

Australians have never put a great deal of trust in politicians' election promises. It's easy to recall Keating's broken promise on tax cuts, Howard's on the GST, Gillard's on a carbon tax. But in these situations the politicians involved at least acknowledged that they were breaking a promise and provided at least a superficially plausible rationalization, such as Howard's "core" and "non-core" promises, and Gillard could reasonably claim that the Greens forced her into her carbon policy.

Also, they did try to stick to their promises, and generally held true to the platform they had taken to the election.

That was until Abbott who in the 2013 election campaign made a string of promises that he had no intention of keeping. Within eight months his "Commission of Audit" and first budget had broken all his most important pre-election promises.

That was a point of fundamental change, when the electorate's scepticism and mild cynicism gave way to mistrust. The fragile contract between voters and politicians had been broken.

If Abbott hadn't broken the contract some other opportunist probably would have. Ever since Hewson's unsuccessful 1993 campaign when he put up *Fightback* – a detailed and reasonably consistent manifesto of his policies – political advisers have been warning against too much clarity in election policies.

Making and breaking a basic set of promises is a strategy one can use only once because once done, the dynamics of the game change. That's how the "prisoners' dilemma" operates.

The ensuing mistrust is costly to all concerned, for it makes it very hard for any subsequent government to pursue difficult policies.

### **Trashing the rules of inquiry and civilized discourse**

Abbott's initial electoral success stemmed from more than opportunism, however. He is a clever communicator. Not in terms of clarifying and explaining complex problems: on the few occasions when his guard is down and he lets himself be drawn into such situations he dissembles. But in simplifying complex problems with short slogans – "big new tax", "stop the boats". And he has had the fortune of the Murdoch media echoing his messages.

Such simplification, in comparison with the more complex and wordy discourse that most public policy issues demand, carries for many the impression of authenticity and sincerity, avoiding the turnoff of highfalutin language.

Abbott's approach as prime minister went further than that, however, because he devalued and dismissed the norms of public discourse – the rules that require those with a policy to pursue to use evidence and logical argument. In doing so he devalued those rules not only in the political sphere, but also in other spheres, most notably objective inquiry by scientists and other experts.

Simplification is a form of discourse that always "wins", particularly in short-attention media. When assaulted by a fabrication of lies posing as facts, the journalist or debating opponent abiding by the rules of logic and argument is effectively disarmed. Even if they can counter with an objective response, they can be accused of taking a partisan stance. It's probable the fear of such a partisan accusation lay behind the ABC's decision to close its "Fact check" service. Paul Krugman reminds us that "the facts have a well-known liberal bias".

Besides simplification, the other technique is to reduce every issue to "opinions". Anthropomorphic climate change, the efficacy of monetary policy, the rate of crime among immigrants – all become matters of "opinion". It doesn't matter who gives that "opinion" – a scientist, a research team in the CSIRO, the head of the IMF, a politician, a lobbyist for an industry with a stake in the issue, a leader-writer for the *Telegraph*. It's all opinion. And the more the opinion-holder is removed from the elites of academia or public service, the more authenticity the opinion commands.

Rather than directly criticizing particular public institutions – such as mounting and presenting evidence that bodies like The Australia Institute may have a particular bias, it's more effective to trash the very way they work. That's a broad and effective way to devalue those that rely on evidence and logic in their work, while protecting lobby groups and others with partisan interests. As *The Economist* said of Trump's tactics, he won office "by undermining trust in any figure or institution that seemed to stand in his way". ("Winning by breaking", 24 December 2016.)



Once such trust is lost, political paralysis follows. Consider, for example, our government's proposal to cut corporate tax, on the basis that it would boost growth and employment. For reasons I and others have published, I don't believe it would, but even if, after extensive and dispassionate research, a group of independent economists could present a robustly-argued and watertight case for a tax cut, no-one would be convinced. Having trashed established processes of study and enquiry on climate change, housing tax and other issues, expert opinion on this issue would count for nothing with the public.

Perhaps the Coalition hopes that, having dismissed all other sources, they remain the one source left standing. There was a time when the Liberal Party, by dint of its conservatism, held an (unearned) position of trust in the community, and often with some justification it could accuse spokespeople on the left of rabble-rousing, but Abbott demolished whatever remained of the Liberal Party's reputation for trustworthiness, and in any case mistrust is contagious.

It is fashionable to suggest that the events of 2016 reveal a new "post-truth" phenomenon, but in the next section we'll see how such anti-intellectualism goes back at least 50 years, and that it actually grew from left-wing movements.

It's unusual for Australian political movements to run ahead of America's, but Abbott certainly seems to have stolen a march on Trump – and in doing so has left his successor with a legacy of mistrust in the whole established political system.

Trump is less given to the three-word slogan than to the Reagan-style stream of rambling sentences and clauses, often spontaneous, and sometimes internally contradictory. But his style achieves the same purpose – it's just the way many people would react if they suddenly had to speak on something they had not prepared for. It's that very unpreparedness, in contrast to Clinton's neatly-polished speaking notes, that has given Trump a type of authenticity.

His use of crude language has another effect, in that it legitimizes the use of such language by others. Traditional conservatives were once the guardians of "proper" language, at least in public, and were strong advocates of film and literature censorship. (If anything their private use of language was more crude, sexist and racist than it is now.) The new wave of conservatives, particularly those on the far right, realize that relaxing those constraints could give license to those who, in blogs and on Twitter, could say things that they wouldn't say themselves.

Racism and xenophobia spread when those in authority give others tacit permission to give voice to their prejudices. It doesn't take many entries on a blog to give the appearance of a mass movement.

It's too early to tell whether Trump's campaign speeches and his post-election statements were careless rambles or carefully-planned statements designed to give himself flexibility once in public office. As with the Old Testament, there is enough in his statements to justify any imagined ideological stance, at any point on the left-right spectrum.

But whatever the purpose, such discourse carries not only an impression of authenticity, but also a message that one is from outside the political establishment. In Australia, as in America, a perceived distance from the political establishment is an asset. Bob Hawke and Kevin Rudd found such supposed detachment to be to their advantage. (Hawke's speaking style was part of his masterful mode of self-presentation.) Turnbull as he rose in public prominence conveyed the impression that he was outside the political establishment, until he was perceived to be beholden to the right wing of the Liberal and National parties.

Both Abbott and Trump have been successful in projecting the idea that they are anti-establishment, that they represent the interests of those "left behind" (including Abbott's

“aspirational”), and that they are warriors fighting an entrenched and powerful “left”, “progressive” or “liberal” elite.

If only the left were so organized.

## Brexit, Trump and the Lucky Country 7 – The left went AWOL

*Contrary to right-wing conspiracy theories, there is no significant “anti-business” force in Australia. In fact the left has never been weaker: the traditional unionized left has been weakened by structural change, and the “progressive” left has dealt itself out of contention by abandoning economics.*

There is a story, possibly apocryphal, from Nero’s Rome. In the ultimate display of demonizing the “Other” while entertaining the masses, the occasional Christian was thrown to the lions in the Coliseum. In his wisdom and mercy Nero decreed that any Christian who survived three such events would be freed and given Roman citizenship.

Only one Christian, a fit and agile young man, had survived twice. The third time, in order to give the lions a chance, he was bound and buried up to his neck.

Anticipating Nero’s trickery, on the morning of the event he gorged himself on garlic, herrings and aged French cheese. When the first lion bound up to him he blew hard in its face, and the lion, judging that smell was a reliable guide to flavour, decided to find someone more palatable. As the lion passed over him the Christian threw back his head and with all his might bit the lion on its testicles.

The lion leapt away, yelping in pain. And from high up in the stand, where the corporations had their boxes close to Nero’s, a cry came: “Fight clean you dirty Christian bastard.”

There is a certain asymmetry in Australia’s political culture – an asymmetry supported by sections of the media. The left is expected to abide by the rules, while those on the right consider themselves to be free to choose which rules to break and which to keep. The [dismissal](#) of the Whitlam Government in 1975 is the standout example. More recently there was Abbott’s the petulant and destructive parliamentary behaviour during the Rudd/Gillard period. The same crimes against parliamentary democracy earn a mild rebuke when committed by a Coalition government and become hanging offences when committed by a Labor government. The general message is that while the right is respectable, the left should know its place, and that place is a subordinate one.

Late last year in an [interview](#) on the ABC, Andrew Bragg, head of the Liberal Party-aligned Menzies Research Centre, took aim at a supposedly powerful left-wing movement in Australia outgunning the “business community”. He claimed that “the anti-enterprise brigade has vastly more resources than the pro-business lobby.”

### **There is no “anti-enterprise” brigade**

We can leave aside Bragg’s suggestion that there is some recognisable “business-community” in Australia. It’s common terminology, used by politicians and lazy journalists. It suffices to point out that there is a huge variety of “businesses”. There is very little that binds unincorporated micro-businesses (individuals with a lawn mower, a trailer and an ABN) and large multinationals, entrepreneurs developing renewable energy technologies and coal companies lobbying to thwart energy innovation, family farmers and agribusinesses.

Perhaps the real anti-enterprise brigade is the network of lobbyists whose function is to preserve the privileges their constituents have secured from government. Their main role is to stymie reform, no matter how strong is community support for reform and no matter how strong the economic case for reform. In Australia we are in awe of the power of the gun lobby in the US, but we have our

home-grown bunch of reform blockers – the coal industry, pharmacists, health insurers, the alcohol industry, private schools and the gambling industry to name the most prominent blockers and guardians of economic rent. As [Ross Garnaut](#) has said, Australia faces the “diabolical problem” of vested interests being able consistently to undermine necessary but hard reforms.

Bragg’s claim about the left’s resources is as laughable as the story of Nero’s lions. The interests of capital have always had the upper hand in Australia. Of course there was a time when the left, as represented by the trade union movement, was strong enough to countervail the power of capital, but due mainly to structural change that period is past, and as for the progressive or liberal left, whatever voice it may have had in the past is now muted, for it has largely removed itself from relevance in the public debate.

I don’t intend to ridicule one individual. Bragg’s statement even while he grossly overstates the power of the left, expresses an often-expressed notion that there is some capital vs labour class struggle, and it fails to acknowledge the very problem of our age which is almost the diametric opposite. That is the too-easy alignment between economic liberals (the right) and social liberals (the left) which has left so many people behind. Those liberals are the so-called elites, against whom many people are rebelling.

In a capitalist economy capital and labour have more shared interests than conflicting ones. A well-paid workforce sustains markets, and workers have a strong interest in seeing that corporations are doing well, so that they can pay high wages and provide good conditions. That’s the basic economics of capitalism.

That economic model was embraced by social-democratic parties, in contrast to communist parties that saw the destruction of capitalism as the path to the workers’ paradise. And for most of the twentieth century a formal or informal alignment of trade unions with social-democratic parties made good sense.

In Australia trade unionism, as a proportion of the employed workforce, peaked at [65 percent](#) in 1948. It was still near 50 percent when the Hawke Government negotiated the Prices and Incomes Accord in 1983. Union membership is now only 17 percent, and is even less (12 percent) in the private sector. And unionists are old – among workers aged 20 to 34 only 11 percent belong to a union.

Much of this decline is due to structural change, as the industries that once had large labour forces in concentrated establishments – ideal for trade unionism – have declined or have replaced labour with machinery. The situation is broadly similar in other countries.

Worldwide as social-democratic parties lost their identified working-class and unionized bases, they turned to other areas for support, particularly social liberals and progressives. In Australia this shift was most strongly marked by the Whitlam Government’s liberal agenda.

There has been friction in this re-alignment. Trade liberalization has been a liberal cause, but understandably many manufacturing union members support protection. On censorship, sexual behaviour and civil liberties there are often divisions between the values of liberals and conservative members of the working class, particularly those for whom their own economic situation is of prime importance.

These divisions are not necessarily about the issues themselves, but rather about their importance. For example, Australian liberals may see same-sex marriage as important, citing [opinion polls](#) to support their case, but what those polls reveal is simply that most people – 72 percent – do not object to same-sex marriage. So it is on many issues. One may accept liberal positions on a raft of

issues – treatment of asylum-seekers, race and gender discrimination – but if one feels alienated and abandoned these are not first-order issues. Most farmers who run their businesses professionally would be well-aware of climate change, but if they're facing cash-flow problems, or feel they have been exploited by a dairy cooperative, they have other things on their mind.

To look at those figures on unionism from another perspective, 83 percent of Australia's employed workforce is not unionized. Included in that 83 percent are those who have enough economic power, or believe they have enough economic power, not to need a union. (I recall one Labor stalwart complaining that Whitlam's push to widen post-school education opportunities had weakened Labor's support base.)

The 83 percent includes those who have lost relative or absolute economic power – farmers, self-employed workers operating as individual contractors, people who have involuntarily shifted to lower-paid or insecure casual and part-time work. And because it relates only to the employed workforce it doesn't include the unemployed or those who have had to retire early. These are the people "left behind".

The trouble for social-democratic parties, particularly those whose model has been based on mobilizing massed workforces, is that they don't have ways of reaching out to these groups. They're like corporations who become locked into business models that have been successful in the past but are losing relevance.

All long-lived organizations have the inertia of legacy. Social-democratic parties are no exception. That inertia was on full display in the US presidential election: the Clinton juggernaut rolled on, no more deterred by the warnings from people like Sanders and Reich than a semi-trailer driver would be deterred by a rabbit on the road. In Australia there have been many proposals for reform of the Labor Party, but apart from some important changes to [voting rules](#) in 2013, it's been almost 50 years since Whitlam steered through a [raft of reforms](#) at the 1969 ALP Conference.

While progressive liberals may still support parties of the left, a sharing of liberal values does not make for the sort of strength once exercised by a unionized working class. At best they can mobilize around specific issues through vehicles such as Getup!, but these are small gatherings compared with the position unions once held, and their interests are more heterogeneous than the interests – pay and conditions – that held the unionized workforce together.

### **The left and economics**

Also, in a trend that's been established for at least half a century, those on the left have largely let economic issues slip away from their concerns. There was a time when the left, particularly young intellectuals attracted to Marxism, saw the world only through an economic prism. But then 50 years ago, when the left worldwide was protesting against the Vietnam War, the Shah of Iran, or for the rights of women and racial minorities, economics went off the left agenda. The mathematics was too tough, and *Das Kapital* is hard-going. It was much easier to smoke a joint, listen to Joni Mitchell, and join a demonstration in the safety of big numbers than to look at serious issues of economic exploitation.

At the same time the left, particularly in France, was embracing the nihilistic philosophy of postmodernism, according to which there is no such thing as an objective truth, but only people's individual perspectives or viewpoints. In other words there is no objective standpoint, only opinions.

Postmodernism was an understandable reaction against the dogmatic rigidity of the French school curriculum. It was also a reaction against the various “isms” – capitalism, communism, fascism – that claimed (falsely) to be expressions of Enlightenment rationality.

Postmodernism gave license to sloppy argument. There was no need to research the mechanisms of capitalism, to go through the hard slog of gathering evidence, analysing data, working through the complexity of issues, identifying tradeoffs and engaging in public debate.

Unwittingly the left came to reduce the idea of liberalism to a set of causes, and by the 1980s the economics of capitalism wasn't one of them. It was much easier to see the world through the soft and fuzzy lens of critical theory than through the hard and focussed lens of economics. There was something uncool about joining political parties, particularly the traditional parties of the “left”, and even voting was a bit of a drag. There was even something chic about political disengagement.

As pointed out in the previous section, the right, which had once been the defender of [Karl Popper's](#) rules of scientific inquiry (another Austrian, who carried the torch for the [open society](#)) appropriated postmodernism to its own ends. In so doing they abandoned the inherent caution in patient evidence-based policy – an essential aspect of traditional conservatism.

More basically postmodernism, with its emphasis on individual rather than shared perspectives, was compatible with the amorality of market capitalism. That is the economic idea that resource allocation should be left to individuals attending to their own desires – a common but false interpretation of Adam Smith's notion that *in some situations* people pursuing their self-interest can contribute to the common good.

The domain within which public ideas are examined and debated rigorously has been shrinking. Universities remain influential, but their rigour is under threat from two sides – commercial pressure from the right, and anti-intellectual cultural relativism and postmodernism from the left. There are independent think tanks such as the Australia Institute, the Centre for Policy Development, and the Grattan Institute, but their resources are tiny.

In any case most of those on the progressive left have seen no need to engage in the economic debate. By and large they have done well for themselves. Many of their causes have become, or are becoming, mainstream.

For those with some creative flair, a few degrees and certificates, a capacity to write an exaggerated resume and an impressive Facebook profile, capitalism isn't too bad after all. For those who have not entirely abandoned mathematics the finance sector offers some well-paid jobs, while for those who have gone for the soft subjects there is always public relations and advertising.

Capitalism has been kind to them.

As an *Economist* journalist has written:

In the past quarter-century liberalism has had it too easy. Its dominance following Soviet communism's collapse decayed into laziness and complacency. Amid growing inequality, society's winners told themselves that they lived in a meritocracy—and that their success was therefore deserved. The experts recruited to help run large parts of the economy marvelled at their own brilliance. But ordinary people often saw wealth as a cover for privilege and expertise as disguised self-interest. ([Economist editorial](#), 24 December 2016.)

## **Brexit, Trump and the Lucky Country 8 – Don't wait for a "leader": we need leadership**

*We have many hard issues to confront but our present political elites are adept at avoiding them. It's futile and dangerous to wait for a "leader" who will solve our problems. The task of leadership is one that falls on anyone who has voice.*

Ron Heifetz whom we met in Part 2, stresses the *work* of leadership, which he defines as "a set of activities involving the mobilization of the resources of an organization or people to make progress on the difficult problems it faces". It's about leadership, not "leaders".

His definition needs to be unpacked.

As a "set of activities" it is quite separate from a position. Indeed, he stresses that leadership can be exercised from any position. Authority, by contrast, is positional; one is generally appointed to a position of authority (a CEO, a military commission), elected (a prime minister) or acknowledged through recognition of expertise (the authority of a qualified surgeon or an expert witness in court).

People with positions of authority are often constrained by specific mandates, or by majoritarian votes. Note, for example, that in recent years it's been far easier for retired politicians – Fraser, Keating, Hewson for example – to raise difficult issues than it has been for serving politicians. Heifetz points out that people in positions of formal authority – prime ministers, ministers, premiers – are often more constrained in exercising leadership than those with some distance from authority. The task of those in authority positions is often to keep the system running smoothly, while leadership is unsettling and disruptive. That's why it's often futile to demand that prime ministers or others in prominent authority positions take the initiative in exercising leadership.

He refers to "mobilization of resources". It's not about simple leader-follower models. My metaphor for such models is the locomotive pulling a set of powerless carriages. Rather, his notion is about the group or organization using its own resources, willingly and with informed judgement. A group moving in the same direction, and of its own volition.

It's about "organizations or people". The group can be large or small – a nation state or a family. The theory is general.

For all our effort we may do no more than "make progress" on our problems. We may not always "solve" them. And as we make progress our understanding of the problem may change. Leadership in a democracy is an ongoing process.

He refers to "difficult problems". Heifetz's background is as a psychoanalyst: he uses the term in a psychoanalytical sense. By the adjective "difficult" he is not referring to technical difficulty, but adaptive difficulty – particularly the difficulties of facing up to the need for change and letting go of some long-held and cherished beliefs.

The difficult problems we all need to confront right now are those represented by the Brexit and Trump votes, and more generally by the discontent of those who have not shared in the benefits of economic growth.

In brief, the economic and political model that served the "developed" world so well in the 1945 to 1980 period, and that has since morphed into neoliberalism, has failed too many people. While it may still have some time to run in "developing countries", in countries like the US and Australia it is not sustainable in its present form. Nor can it deal with the emerging problem of widening technological unemployment.

That's a hard reality to confront, and various groups of the economic and policy elites have adopted their own forms of avoiding it.

### How we avoid hard issues

Heifetz has coined the term "work avoidance" to refer to the mechanisms people use to avoid confronting hard issues.

In Australia the Coalition Government has re-asserted the economic orthodoxy of neoliberalism – "small government", tax-cuts for businesses, some union bashing – even though these are almost diametrically the opposite of a set of policies that would ensure economic growth.

They have resorted to the classic work-avoidance technique of blaming others. Among enemies of the state they have identified are asylum-seekers threatening to open our borders and wreck our way of life, scientists who want us to pay crippling electricity bills and stop us supplying coal to a needy world, and course "leaners" – all would be well if only they got a job. And of course there is the perennial practice of blaming it all on the opposition, particularly when the government lacks a Senate majority.

Politicians in most parties have been calling for some measures to shield local industry from import competition. That's a supposedly easy solution and a retreat to the past. If a government could re-erect a tariff wall it may work for a little while, but it's really a way of staving off the inevitable. At the other end of the economic spectrum are those who say everything should be left to the market – in other words do nothing and avoid the hard reality that many of the markets we have fostered have failed.

A common form of work-avoidance is to invoke tradition as a reason for inaction. We supposedly cannot address important issues such as balancing the budget, dealing with climate change, reforming school education or making our tax system fairer, because our two-party parliamentary system makes for gridlock. But there is nothing in our Constitution that says we are locked into these arrangements. As [Ian Marsh](#) points out, there is no reason we cannot operate as a multi-party democracy – as is the case in Germany where the Social Democrats and the Christian Democrats operate as a coalition. Marsh points out that we already have a multi-party democracy, but we adhere to unnecessary traditions and assumptions to ignore its existence.

The established business lobbies by and large have hardly moved from their nineteenth century model of a wealth-creating private sector in conflict with the "anti-enterprise brigade"; they have not come fully to grips with the twentieth century model of capitalism, let alone the twenty-first one. By and large they represent those who, through capturing rent or securing other government privileges, have done well and are inherently conservative.

Lobbyists and government have a mutually-reinforcing means of work-avoidance. Lobbyists seek to obstruct reforms, and governments find it easy to blame lobbyists for that obstruction. The subtle message to the public is "we would have liked to introduce a resource rent tax/reform poker-machine gambling/improved the Murray's environmental flows, but the lobby groups would have slaughtered us".

The left, for the most part, is putting much of its energy into issues to do with LGBTI rights and language (particularly 18C of the Racial Discrimination Act and politically correct language). A conspiracy theorist would suggest that the right is keeping these issues alive to deflect the left's energy from economic matters. Some on the left, like crazed prophets warning of the end of the



world, are pronouncing that capitalism is dead, but are not offering any plausible economic model to replace it.

The well-off – those Australians in the upper third of the income and wealth distribution – seem to believe that structural change is something that happens to other people. They fail to understand that they are included in the world's most materially privileged one percent, and that the task of restoring public revenue through higher taxes should fall to them. (Of course the very rich should pull their weight, but there aren't enough of them to restore our public revenue to health.)

A theme common to all these elites is that they say they need to explain themselves better. Whenever the Coalition does badly in an election – and they have done badly in the last [six elections](#) – their reaction is to sheet some of the blame to their failure to get their message across. The other reaction, a bipartisan one, has been to blame the “leader”. Since 2000 Beazley, Crean, Latham, Rudd, Gillard, Nelson, Turnbull and Abbott have all served their parties as scapegoats. It's much easier for an organization to find and punish a “leader” than to deal with its own, often systemic, shortcomings.

Business lobbies too are claiming that the public doesn't understand them. They're like corporations which, in response to falling sales, redouble their expenditure on promotion, but never bother going out to find why people aren't buying their product. Shouting one's message even louder without listening is a classic form of work avoidance.

These are all ways of avoiding the hard issues we face. On top of the perennial issues of public policy – marshalling resources for education, health care, defence and other ongoing public services – the problems we now face will involve a great deal of painful change.

### **The work of leadership**

It's not my intention to lay out a policy prescription. Good public policy is what emerges from a process of adaptive work. But in broad terms the most pressing problem in “developed” countries is the need to craft an economic and political framework that ensures the benefits of social and ecologically sustainable economic activity are distributed fairly. Within that framework there have to be ways to deal with climate change and technological unemployment, both pressing issues.

That framework will probably involve more restraints on markets, a stronger social wage, and a stronger role for public enterprise. It will probably involve more subsidiarity – a shifting of decision-making as far down the line to the local level as is practical.

Whatever framework develops it will have to ensure that people can develop their capabilities and contribute to their potential. A *sine qua non* for any economic system is to ensure that there is a connection between contribution and reward, a connection that's been severed over the last thirty years. (Where the right sees “dole bludgers” and “leaners” the left sees rent seekers, overpaid executives and tax evaders: but both are seeing different aspects of a failing system.) And in a world of change there have to be safety nets that sustain not only people's material standards but also their dignity and meaningful social involvement.

In Australia's case, while we share some of the world's most pressing problems, we have adaptive challenges of our own. We have squandered the proceeds of the mining boom on tax cuts and depletion of public assets, and aren't ready to face the challenge of lower economic growth. Nor have we accepted that the economic model that kept us going for 200 years – depletion of non-renewable resources and reliance on foreign investment to prop up our exchange rate and to allow

us to live beyond our means – is unsustainable. Donald Horne tried to warn us many years ago: that was leadership but we didn't want to listen to him.

None of our political elites are game to point out that the days of plenty are behind us, and that the foreseeable future has to be one of sacrifice – shared sacrifice if we have any hope of holding our society together.

The path to such a changed framework will involve disruption and pain. The work of leadership is to manage and pace that process. Too fast, and there's reaction and a retreat to populism. Too slow and there's a steady decline, of the type Ian McLean describes in his work [Why Australia Prospered](#), that saw South American countries 120 years ago slowly sink from prosperity into poverty. Either way the destination is dismally similar.

Those who exercise leadership will do so by bringing the hard issues to the fore, making sure that the community understands the issues to be dealt with and helping people take on new perspectives. One perspective in particular is to re-perceive tax as an investment and as payment for shared services rather than as a "burden".

Effective leadership will ensure that people know what they must accept as immutable conditions (for example the need to reduce carbon emissions) and what they can influence themselves through individual or collective effort (for example restoring dilapidated infrastructure). Along the way, if such a process is managed well, trust in government and public institutions may be restored.

Again, I stress "leadership", and not "leaders". The "leader" who stands on his soapbox and says he can solve all our problems is either an idiot or a charlatan – perhaps both. We are naive if we think the task of adaptive change can be left to the "leader" – our Italianesque practice of throwing out prime ministers every couple of years reveals a collective immaturity.

Everyone who's concerned with our situation can exercise leadership through raising the hard issues we confront in their own groups and helping people deal with them in their own ways.

Otherwise, in the absence of leadership, it's over to populists.