

# Is There a Future for Social Democracy After the Financial Crisis?

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## 1. Social democracy and the GFC

There are two lessons from the global financial crisis. The first is that capitalism always moves in cycles. The second is that we are destined always to forget the first. Social democrats will always be gainfully employed trying to protect capitalism from its own excesses. They will be proven right about the need to regulate financial markets to dampen the speculative urge, but they will be proven right over and over again because they fight a losing battle. After all, the window of opportunity to impose effective restraints on secondary financial markets after the crash has now closed; the tough talk has led to very little.

Of course, the neoliberal model has been discredited by the crash of 2008. For critics of the free market model there was more than a pang of *schadenfreude* to be had from Alan Greenspan's astonishingly frank testimony to Congress: 'Those of us who have looked to the self-interest of lending institutions to protect shareholder's equity—myself especially—are in a state of shocked disbelief'. We shook our heads in dismay as he owned up to being 'very distressed' at finding a 'flaw' in his free market philosophy. Of course, clever people had been pointing to the flaw for years, but good advice is always drowned out by ideological conviction as long as the economy is growing. Greenspan was a long-time acolyte of Ayn Rand, the god-mother of US free-market ideology.

It seems natural to expect that a financial crash after years of market deregulation would see the resurgence of social democracy. Yet in the 1980s and 1990s most social democrat leaders and intellectuals had made themselves as much the students of free

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market economics as their conservative or neoliberal counterparts. So when we examine post-crash elections the only trend is the ejection of incumbent governments, whatever their political colouring. Whoever was in power, including Gordon Brown in Britain, is seen to have been responsible. If Angela Merkel's re-election in Germany seems to be an exception it only reinforces the deeper point that the SPD is seen to have little substantial to offer as an alternative.

Historically, social democracy has been in the ascendant when it has had the authority of economic credibility. The Keynesian response to the Great Depression provided an opening for social improvement through economic intervention, and the post-war consensus was the golden era of social democracy. Even the conservatives were kinds of social democrats. The collapse of Keynesianism in the early 1970s created space in the 1980s for the emergence and then dominance of neoliberalism, with both a plan for economic recovery (monetarism, financial deregulation, free trade and so on) and a program for social reform based on 'economic freedom', the shrinking of the state and the cultivation of a property-owning culture. But the ideas of neoliberalism had been some decades in the making. The ground had been prepared thoroughly by conservative intellectuals, think tanks and commentators,<sup>2</sup> which leads us to ask: which alternative ideas on the left have been germinating for a couple of decades waiting for this crisis to come along? After the brief and inglorious career of the Third Way, there have been none; social democracy has run out of big ideas.

## **2. The new capitalism**

Although little noticed, the last global boom, which began in the early 1990s and ended in 2008, profoundly transformed capitalism, taking it into a new stage. While the origins of consumerism can be traced to the 1950s, and even the 1920s, it reached its full development only in the 1990s when it morphed from being an aspect of economic behaviour into the dominant social force.

Elsewhere I have described it as the transition from a production society to a fully fledged consumption society in which the traditional relationship between production and consumption in affluent countries was reversed.<sup>3</sup> In short, social change is now

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<sup>2</sup> Detailed by Richard Crockett in *Thinking the Unthinkable*, HarperCollins, London, 1994

<sup>3</sup> Clive Hamilton, 'Consumerism, Self-Creation and the Prospects for a New Ecological Consciousness', *Journal of Cleaner Production*, forthcoming 2009

driven not by efficiency, mass production, Taylorisation and the other productivist methods but by the process of consumption and marketing. Consumer confidence now matters more than investor confidence; standardised products have been replaced by differentiation; corporations now compete less through prices than through manufactured difference of style and image; marketing departments now dominate production departments, where they have not been wholly out-sourced; luxury goods are now consciously marketed to the masses; and, consumption is no longer the means by which we satisfy needs but an activity directed at responding to deeper urges, weaknesses, fantasies and aspirations.<sup>4</sup>

Shopping became, above all, an emotional activity. By the 1990s the advertisers fully understood that the nature of consumption had changed radically, that buying things was no longer a means of meeting reasonable needs but a way of creating a sense of identity and finding a place in society. The symbolism of the commodity became more valuable than the thing itself.

In the 1950s and 1960s it was sometimes said that middle-class people saved because they embodied the values of self-control and prudence, while the working class was unable to defer gratification and spent as if there were no tomorrow. Whether true or not, by the 1990s the middle classes were no longer willing to defer the satisfaction of desire. The norms of moderation and thrift characteristic of the post-war decades were replaced in the 1990s by a culture of instant gratification. Instead of asking ourselves 'Do I really need a new one?' we began to ask 'Why should I put up with the old one?' Not only did we want it now, but once we had it we soon began to think about replacing it. This too reflected a shift in values, away from taking pride in making things last in order to get full value from them, towards an urge for constant renewal. It was the era of the make-over.

One recent study found that some iPhone shoppers are turned off by advertisements that emphasise the generous five-year warranty because it signals that buyers should commit to the gadget for a long time, when they would rather replace it in a year or two. Similarly, we don't hear much nowadays about the emblematic consumer complaint of the 1960s, planned obsolescence, because consumers often tire of a product well before it physically expires.

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<sup>4</sup> Clive Hamilton, *Growth Fetish*, Pluto Press, London, 2005

The nature of desire had changed. The emotional, social and even existential needs that consumption promised to meet could in truth never be satisfied that way. Consumers lapsed into a constant state of dissatisfaction, a state they were convinced could only be alleviated by more consumption. It was a beautiful state for the economic system, for nothing more effectively fills the shopping centres than a yearning that does not know how to resolve itself. It is an irony that it was only with widespread affluence that the foundational assumption of neoclassical economics—that wants are unlimited—became true. Rather than build a theory on the basis of *homo economicus*, free-market economics created rational economic man.

We had an almost perfect numerical indicator of this new phenomenon, the ratio of household debt. For the last boom was characterised by an unprecedented debt binge, driven mainly by middle-class households whose motives were not to put food on the table but to fund extravagant lifestyles.<sup>5</sup> (Indeed, the era was marked by the emergence of the idea of ‘lifestyle’, which superseded class background as the way of imagining how one should live.) The housing bubble was impelled by the escalating desire of buyers willing to commit a larger share of their future incomes to obtaining the houses of their dreams. In the United States, along with ballooning mortgages, the sizes of houses themselves grew (55 per cent since 1970), at the same time as the number of people in them fell (by 13 per cent).<sup>6</sup> Even so, expanding dwellings could not accommodate the volume of consumer goods and a new industry sprang up to help. The self-storage industry grew by 80 per cent in the six years before the crash.

Admittedly, this debt binge was more characteristic of Anglophone nations than continental Europe. In 2004 the *Wall Street Journal* lamented the unwillingness of Europeans to spend unnecessarily and bewailed their penchant for electing governments that introduced laws to restrict retail hours and limit the use of credit cards: ‘Western Europe has only 0.27 credit cards per person compared with 2.23 in the US’, the *Journal* complained. ‘Moreover, many affluent Europeans just do not

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<sup>5</sup> For the United States, see Bill Hampel (Chief Economist Credit Union National Association), ‘Overview of Household Debt Exposure’, FTC Debt Collection Workshop, October 10, 2007 <http://www.ftc.gov/bcp/workshops/debtcollection/presentations/hampel.pdf>. In 2004 households in the lowest income group had a little over three per cent of the income and a little over three percent of the debt. Those in the third income quintile, the middle 20 per cent of the population, had a little over 12 per cent of the income but held 15 per cent of the debt, while the second richest 20 per cent of households had 19.5 per cent of the income but 24 per cent of the debt.

<sup>6</sup> Robert Samuelson, ‘Homes As Hummers’, *Washington Post*, July 13, 2005

want to spend their free time shopping'.<sup>7</sup> The Europeans interviewed for the story said they'd prefer playing with their children, meeting friends and reading books. The *Journal* was particularly dismayed that French television regularly warned viewers about the dangers of over-indebtedness.

But continental Europe does not have too much to be smug about. Housing bubbles struck France and Spain, with house prices rising at 15 per cent a year in France over some years. And today three countries in the Euro-Zone—the Netherlands, Portugal and Spain—have ratios of household liabilities-to-GDP similar to those in the United States.<sup>8</sup> Across the Euro-Zone, household indebtedness rose from 44 per cent of GDP in 1995 to 56 per cent in 2004, low by the standards of the United States, Britain and Australia, but still indicative of the way desire grew faster than incomes even at a time of rapid income growth.

The new structural need to manufacture discontent changed the function of economic growth. While the textbooks and political rhetoric still maintained that economic growth is the process whereby people's wants are satisfied so that they become happier, in reality a system had been created in which economic growth could be sustained only as long as people remained discontented. Economic growth no longer created happiness; unhappiness sustained economic growth.

### **3. Workers as speculators**

We now all know what more prescient observers knew several years ago. The boom was a house of cards whose bottom storey in the United States was made up largely of sub-prime housing loans held by people who had no chance of paying them off. Yet low-income people were only the last to become caught up in the psychology of the bull market.

The recession at the end of the boom was economic history repeating itself, but what was new about this bubble was its democratic nature. A large proportion of the population had accumulated *assets*. In addition to income, they now had wealth—family homes with rising values, investment properties, and shares, if only from

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<sup>7</sup> Marcus Walker, 'Behind Slow Growth in Europe: Citizens' Tight Grip on Wallets, A Thicket of Laws to Protect People Damps Spending; 'Debt Is Disreputable', Better Things to Do Than Shop', *The Wall Street Journal*, December 10, 2004, p. A1.

<sup>8</sup> <http://www.fxstreet.com/fundamental/analysis-reports/special-commentary/2009-08-26.html>

pension and superannuation funds—and they began to ask why the value of their assets should not be multiplied in a boom like those of the rich always had. It is true that the benefits of the boom were not equally spread—and some missed out altogether—but the psychology of the typical household had been changed forever.

Adam Smith observed that once the division of labour and the extent of the market have reached a certain stage of development every man becomes ‘in some measure a merchant’,<sup>9</sup> at least to the extent he must sell his labour. The commodification of labour was a theme taken up by Marx and turned into a political theory. We can now see how, when workers make the transition from being sellers of labour to owners of wealth, they begin to behave like capitalists. After all, if you have some wealth why not attempt to maximise its value?

But what does it mean for social democracy when the workers are tempted to become speculators? Did Margaret Thatcher know something social democrats did not when she set out to promote a property owning nation by selling public housing to tenants?

The spread of asset ownership has been inseparable from relentless economic growth, and not only because it provided the means to accumulate some wealth. The spread of wealth gave new force to what economists call the ‘wealth effect’, the propensity to increase consumption as the paper value of assets rises. The growth machine has created the types of people who are perfectly suited to its own needs—docile, seduced by its promises and unable to think beyond the boundaries it sets. People may at times question the wisdom of relentless growth, and conclude that it cannot go on for ever, yet they are soon bounced out of their subversive reverie by the inducements to go shopping. In this way the growth system governs itself. We internalise the discourse, as Michel Foucault would say, so that we begin to articulate the interests of the system and govern ourselves according to its rules. Never were Herbert Marcuse’s words more true: ‘All liberation depends on the consciousness of servitude.’

#### **4. The crash to end all booms?**

In the months after the crisis, in late 2008 and early 2009, the newspapers were full of stories about how the recession had forced a change in values. There is anecdotal

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<sup>9</sup> Eric Roll, *A History of Economic Thought*, Faber and Faber, London, 1961, p. 155

evidence that consumers in America and elsewhere reacted to the recession by abandoning some of their profligate ways and returning to older values of frugality and moderation. Even the *Wall Street Journal*, which had excoriated Europeans for their thriftiness, now advised its readers on how to have a ‘want-free month’, how to barter on the internet, and how to cut off financial support to adult children. While these efforts met with general approval, the irony is that if the anecdotes had become a trend the recession would have been prolonged. If Michelle Obama’s White House vegetable garden had caught on and more Americans grew their own food and cooked it at home, GDP growth would suffer. Nothing would have turned recession into depression more quickly than a widespread withdrawal from the market, so governments implemented stimulus packages aimed squarely at getting consumers back into the retail malls.

It is worth noting here, because it prefigures my later argument, that a return to frugality would certainly reflect a yearning in Americans that has always run deeper than the desire for more stuff. A 2004 poll found that more than nine in ten believe that Americans are too focused on working and making money and not enough on family and community.<sup>10</sup> And at the height of the biggest consumption binge in history nine in ten said that American society is too materialistic, with too much emphasis on shopping. These sorts of survey results have been replicated in most affluent nations.<sup>11</sup>

So is the recession an opportunity for new values to become entrenched, ones that rule out a repeat of the rampant materialism and debt-fuelled consumption that marked the 1990s and 2000s? Short of a political revolution, the depressing answer must be ‘no’, for in the course of the last long boom the marketers planted a poison pill deep within affluent society—a generation of children consciously moulded into embryonic hyper-consumers. Figures for the United States tell a frightening story of the results of the sustained campaign by marketers, beginning in the early 1990s, to target children. In 1983 companies spent \$100 million annually advertising to children. By the end of the boom they were spending more than \$17 billion, 170 times more. Each year

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<sup>10</sup> Survey commissioned by the Center for a New American Dream.  
<http://www.newdream.org/about/pdfs/PollResults.pdf>

<sup>11</sup> For Australia, see Clive Hamilton and Richard Denniss, *Affluenza*, Allen & Unwin, Sydney 2006

American children aged 2 to 11 see more than 25,000 television advertisements.<sup>12</sup> Susan Lynn, Associate Director of the Harvard University-affiliated Media Center for Children, reinforces the message:

This generation of children is marketed to as never before. Kids are being marketed to through brand licensing, through product placement, marketing in schools, through stealth marketing, through viral marketing. There are DVDs, there are video games, there's the Internet, there are iPods, there are cell phones. There are so many more ways of reaching children, so that there's a brand in front of a child's face every moment of every day.<sup>13</sup>

Unlike the Jesuits, the marketers wanted children well before they turned seven. Children now begin to recognise corporate logos when they are as young as six months. In what is perhaps the high point of Girardian mimesis, a British study found that, for one in four children, the first recognizable word they utter is a brand name.<sup>14</sup> A generation of children, now reaching their late teens and early twenties, has grown up under an unrelenting barrage of commercial messages, all with one underlying theme, that the emotional turmoil of daily life is resolved by way of consumption, that happiness is to be found in the market. The marketers do not apologise for this; they brag about it. A professor of marketing speaks for them when he declares:

The positive effect I see is that they [children] are able to function in the marketplace at an earlier age. And in a full-blown developed, industrialized society, that's where we satisfy most of our needs—in the marketplace.<sup>15</sup>

This captive generation of children, whose neurophysiology has been shaped by marketing, will be the power-house that drives the next consumer boom. Their capacity to control and moderate their desires has been systematically dismantled from birth, and this weakness will naturally be exploited by companies everywhere. Who is going to stop them? The wider assault on our capacity to use our reason to

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<sup>12</sup> Adriana Barbaro and Jeremy Earp (writers and directors), *Consuming Kids: The Commercialization of Childhood*, DVD produced by the Media Education Foundation, [http://www.mediaed.org/assets/products/134/presskit\\_134.pdf](http://www.mediaed.org/assets/products/134/presskit_134.pdf).

<sup>13</sup> Barbaro and Earp, *Consuming Kids*. See also Juliet Schor, *Born to Buy: The commercialized child and the new consumer culture*, Scribner, New York, 2004.

<sup>14</sup> See C. Hamilton and R Denniss, *Affluenza*, Allen & Unwin, Sydney, 2005, p. 53.

<sup>15</sup> Quoted in Hamilton and Denniss, *Affluenza*, p. 53. Juliet Schor writes that in preparing her book, *Born to Buy* (Scribner, 2004), she found marketers feeling 'immense guilt and ambivalence about using their skills to target kids with inappropriate messages, questionable products, and insidious techniques'.

assess our interests, and act according to our own considered will rather than momentary impulse, is the new frontier for social democracy.

## **5. The market is no longer the market**

So social democracy finds itself in a new and unfamiliar social landscape. The idea of the market on which it was constructed has been superseded. The modern conception of the market was first formulated by the classical economists who watched it developed a new life from industrialisation and the acceleration of the division of labour. The market was understood as a mechanism of exchange, the engine of economic functioning, the playing field of business activity, the domain of competition and the place we go to satisfy our needs. Beneath all of these functions lay an unquestioned belief—that people are separately constituted outside of the market and go to it to engage in economic activities. In this view, the non-economic activities of social relations, values and cultural forms belong to a separately constituted realm. This was the idea of the market shared by Adam Smith, Alfred Marshall, John Maynard Keynes, Friedrich von Hayek and Milton Friedman. For social democrats the market is also the source of inequality and exploitation, but it remained an institution external to the real nature of people.

However, in the last part of the twentieth century, the market evolved into something different and much more powerful. It became the place where social values are filtered and reified; it is the gate-keeper and clearinghouse of cultural forms; it is the shaper of tastes and the source of desire. The market has become the repository of human hopes. More than all of this, in an individualised social order, the market is the place we go to discover who we are, to test and form a sense of self.

To be sure, social democracy has never been concerned only with ensuring decent living standards for all; it is at least as preoccupied with ending oppression and finding freedoms too. Yet even here, freedom and flourishing are constructed in terms of the market or at least the ability of government to shape the operation of the market. In the words of Stefan Colignon in the *Social Europe Journal* earlier this year: ‘A new social democratic paradigm must start with the recognition that freedom

and equality is founded in market economies'.<sup>16</sup> Such a claim could have been lifted from Hayek's *The Constitution of Liberty* or Friedman's *The Road to Serfdom*. It defines our freedom by our relationship to the market, as if it is only access to goods that liberates us and that the grand vision of liberty is now to be found in the over-stuffed aisles of a department store.

In truth, the market that liberated millions from material hardship has now become the oppressor, and true freedom can only be had by staging a partial withdrawal from it. The modern market—the fount of desire, the arbiter of culture, the dispenser of pseudo-individuality, the repository of dreams of happiness—has become the thief of liberty, the enemy of individuality, the destroyer of the social and the opium administered to the democratic process. Today, emancipation must mean emancipation from the culture of the market.

In some respects, the market's colonisation of life was made possible by the victories of the social movements of the 1960s and 1970s. Although the objectives were noble, the demand for individual rights in those decades released a self-centredness that has grown into full-blown narcissism. To illustrate, in the 1950s only 12 per cent of US teenagers agreed with the statement 'I am an important person'; by the late 1980s, 80 per cent described themselves this way. How else are we to understand the culture of celebrity except as a culture of narcissism? In our pursuit of tolerant pluralism we baby boomers created a society of radical individualism. Appeals to the principles of equality and freedom often allowed egocentric demands to flourish. Slogans such as 'Let it all hang out' and 'Do your own thing' were soon interpreted as 'No one can tell me what to do'. Self-worth became self-worship. The marketing language used today mirrors this development precisely. Narcissistic interpretations of liberation are the bread and butter of modern advertising. Consider these tag lines from magazine ads: 'Go on, you deserve it.' 'Just for you.' 'If it makes you happy, it's a bargain.' 'I don't care what it is, I want it.' It is now apparent that the radical demands of the liberation movements dovetailed with the logic of the hyper-consumer, that the self-creating individual was the agent perfectly suited to the needs of marketing. It's a world of rootlessness and self-comforting perfectly captured in the novels of Michel

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<sup>16</sup> Stefan Colignon, 'The Dawn of a New Era: Social Democracy after the Financial Crisis', *Social Europe Journal*, Volume 4, Number 1, May 2009

Houellebecq, where the individuality of the protagonists is exposed as wholly without meaning.<sup>17</sup>

In my book *The Freedom Paradox* I have called for a reconsideration of freedom in affluent society, because the political and social freedoms won by the great democratic movements, and the social movements of the 1960s and 1970s, have not generated the societies of autonomous, free-thinking individuals that the leaders of those movements promised. We have won those political and social freedom—and where would we be without them—but still lack what can be called ‘inner freedom’. Curiously the arch-libertarian Friedrich von Hayek provides the best definition of inner freedom:

It refers to the extent to which a person is guided in his actions by his own considered will, by his reason or lasting conviction, rather than by momentary impulse or circumstance.<sup>18</sup>

It is not coercion by others that robs us of inner freedom but impulsiveness, ‘the influence of temporary emotions, or moral or intellectual weakness’. Is not the absence of inner freedom, precisely as Hayek defines it, the dominant characteristic of modern consumer capitalism—a social system that cultivates behaviour prompted by momentary impulse, temporary emotions, and moral and intellectual weakness? It is the very purpose of the marketing society to make us the slaves of our passions. Happiness itself, and thus perhaps the goal of life, has been redefined so that today the popular belief that motivates most of our behaviour is the notion that happiness can be no more than the gratification of our desires.

For Hayek, a person’s freedom hinged on ‘whether he can expect to shape his course of action in accordance with his present intentions, or whether somebody else can so manipulate the conditions as to make him act according to that person’s will rather than his own’.<sup>19</sup> Is this not the point we have reached, where in every decision the ‘essential data’ of our lives have been created or manipulated by the marketers, so that our will is bent to another’s purpose? It is a great irony that in a society created to give us more ‘choice’ the most important choices are forbidden, and that it was Hayek

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<sup>17</sup> Perhaps best represented in Houellebecq’s *Platform* and *The Possibility of an Island*.

<sup>18</sup> Friedrich von Hayek, *The Constitution of Liberty*, Routledge & Kegan Paul, London, 1960, p. 15.

<sup>19</sup> Hayek, *The Constitution of Liberty*, p. 13.

himself who so clearly defined the form of liberty the free market would take from us. For individuals, any attempt to withdraw from the market is met with disapprobation and, indeed, accusations of craziness.<sup>20</sup> Opting for a different sort of society was declared impossible by Francis Fukuyama, who once insisted that it is not feasible even to conceive of a society that could succeed liberal capitalism. History has come to an end; our future is no longer a matter of choice but an iron necessity. The existentialists argued that the essence of human freedom is being able to imagine ourselves to be something other than we are. Like his mentor Hegel, Fukuyama has submerged individual consciousness into the ‘grand unity of an ideal mind’, except that today the ideal mind takes a form Hegel could not have foreseen—not the state, but the market itself.<sup>21</sup>

## **6. Future of social democracy**

Karl Marx famously argued that socialism could not take root in backward countries. It is the task of capitalism to first mobilise the productive forces. In doing so it would create the conditions for its own abolition. The principal contradiction lies in the fact that the accumulation of capital necessarily entails the immiserisation of the workers. He did not foresee that the abundance that capital accumulation and the market create could be more evenly spread so that the workers would one day enjoy affluence. Of course, social democracy, and the threat of communism, was in large measure responsible for this, something foreseen by Eduard Bernstein as far back as 1899. His book, *Evolutionary Socialism*, which almost led to his expulsion from the German SPD, maintained that, contrary to Marx’s immiserisation thesis, ‘in all advanced countries we see the privileges of the capitalist bourgeoisie yielding step by step to democratic organisations ...’.<sup>22</sup> One could almost say that, in a perverse way, Marx himself is responsible for the affluence of the workers, and therefore their docility, because the threat of revolution strengthened the claim of social democracy to government.<sup>23</sup>

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<sup>20</sup> C. Hamilton and C. Breakpear, ‘Getting a Life : understanding the downshifting phenomenon in Australia’, Discussion paper no. 62, Australia Institute, Canberra, 2004

<sup>21</sup> This passage is taken from my book *The Freedom Paradox*, Allen & Unwin, Sydney, 2008, p. 57

<sup>22</sup> Eduard Bernstein, *Evolutionary Socialism*, Schocken Books, New York, 1961, p. xxv

<sup>23</sup> Reflecting on the splenetic tenor of his own writings, Marx once wrote that the bourgeoisie would pay dearly for his haemorrhoids. Instead, capitalism invented Anusol.

Although the task of reducing inequality and regulating the market to protect the vulnerable is not complete—and never will be—the Marxist conception of material deprivation, which gave rise to social democracy, is history in affluent countries. Today, social democracy as a political program is perfectly suited to the conditions that prevail in Latin America.<sup>24</sup> That continent is now its true spiritual home.

Social democratic parties have not been a threat to capitalism for a long time; indeed, to the extent that they are more willing than conservative parties to regulate financial markets, social democracy is its greatest friend. Yet in recent years a more fundamental challenge to capitalism has quietly emerged, a widespread questioning of the whole project of material advancement.

It might seem perverse to question the benefits of economic growth in the midst of a recession. Isn't the problem simply that we don't have enough of it? But what if the economic meltdown has occurred because governments have been mesmerised by GDP growth?

Over the last two decades the poor decisions that have brought about the crisis—including the failure to regulate finance and official encouragement of excessive borrowing—have been justified by the need to promote economic growth. Paul Krugman argues that political leaders and regulators accorded a privileged place to finance markets because they succumbed to the 'market mystique'. But to understand the origins of the mystique we need first to appreciate the origins of growth fetishism.

In 1930 John Maynard Keynes wrote a famous essay titled 'Economic Possibilities for Our Grandchildren' in which he reflected on what life would be like after another century of economic growth. He anticipated that, with average real incomes perhaps eight times higher, prosperous countries will have solved 'the economic problem'—that is, how to provide a reasonable standard of living to all citizens, a point now passed by the great majority of people in OECD countries today.

In this state, Keynes observed, 'for the first time since his creation man will be faced with his real, his permanent problem—how to use his freedom from pressing economic cares ... to live wisely and agreeably and well'. Hayek too, writing in 1944,

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<sup>24</sup> My thanks to Alastair Greig of the ANU for pointing this out.

seemed to share Keynes expectation that wealth would allow humankind to transcend the preoccupation with material comfort. The implication is that economic growth sustained over a long period would render outmoded the deprivation model on which social democracy was founded. The task would no longer be to overcome material deprivation but to learn how to cultivate the art of living.

Despite the abundance provided by sustained growth over most of the twentieth century, few people today take advantage of it to cultivate the ‘art of living’ that Keynes and his contemporaries imagined we would be freed to pursue. Instead, we are more engrossed than ever in what John Stuart Mill called ‘the art of getting on’. Rather than wealth liberating us from the tyranny of money, we have become ever more enslaved to it. So the ‘wealth creators’ in the financial sector were allowed to pile one type of risky asset on top of another. In an orgy of greed, otherwise sensible people blinded themselves to the fact that the role of financial services is to oil the wheels of commerce, not to substitute for it. Historically the financial sector had accounted for around 15 per cent of all corporate profits. A couple of years ago it exceeded 40 per cent.<sup>25</sup> An organism can sustain only so many parasites before succumbing to them.

## **7. Transcending growth**

A new ideology takes decades to form—simmering away in the minds of intellectual activists and on the fringes of political organisations—before history provides the grounds for it to flourish. From the 1930s to the 1970s social democracy was the ruling orthodoxy of all parties and governments, and from the 1970s until 2008 free market ideology prevailed.<sup>26</sup> Neither challenged the preoccupation with economic growth, but that is now changing. The challenges lie on a spectrum ranging from the milquetoast to the revolutionary. The soft end is perhaps best represented by the recent Report by the Commission on the Measurement of Economic Performance and Social Progress, commissioned by President Sarkozy and written by a group chaired by Joseph Stiglitz and Amartya Sen, both Nobel Memorial Prize winners for economics. Their task was to ‘identify the limits of GDP as an indicator of economic performance and social progress’. Perhaps not surprisingly for a Commission stacked

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<sup>25</sup> Simon Johnson, ‘The Quiet Coup’, *The Atlantic*, May 2009.

<sup>26</sup> Richard Crockett, *Thinking the Unthinkable*, HarperCollins, London, 1994.

with conventional economists, the report concluded that there is nothing wrong with the growth machine that some better gauges wouldn't fix. They seem genuinely to believe that if governments had had a broader suite of indicators they would have been motivated to rein in the financial markets to keep them from getting out of control. It was therefore easy for President Sarkozy, on receiving the report, to call for an end to 'GDP fetishism'.

The other end of the spectrum is represented by the work of organisations such as the New Economics Foundation in Britain, Redefining Progress and the Center for a New American Dream in the United States, the 'degrowth' movement among continental European economists and my book *Growth Fetish*.<sup>27</sup>

Using GDP to measure social progress is not a mere error in indicator selection, but reflects the nature of the underlying system. The growth machine generates and valorises its own metric, so that changing the metric would disrupt the machine. For all of the manifold and universally recognised failings of GDP—excluding income distribution, ignoring household work, failing to count the costs of environmental decline and unemployment, counting increased spending in response to a crime wave as an improvement in well-being, and so on—it is the indicator perfectly suited to the economic system. It measures only what the market produces, validates market price as the measure of value, elevates the activities of the consumer above those of the citizen, and gives blessing to private economic activities over public and non-market ones. And the GDP metric cedes political power and moral worth to those responsible for its increase, the wealth-creators.

Whereas social democracy is concerned to better manage the market to ensure greater justice and opportunity for all, the degrowth paradigm wants to transcend the market, first by restricting it to its proper domain, then rescuing those areas of life where its values are alien—education, the arts, the natural environment, family life and, above all, the development of children—from the influence of its values. It does not want to abolish the market but to hedge it in, to restrict it to what it is supposed to do, to relegate it to its proper place.

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<sup>27</sup> Richard Layard's *Happiness: Lessons from a new science* (Penguin, London, 2005) lies closer to the milquetoast end.

Affluence has out-lived its usefulness. But is it possible to imagine a society that lives up to Keynes' vision, one in which we are no longer obsessed with growth and consumption and instead cultivate the art of life? In a way, the recipe for such a society is simple. If we want to consume less we must earn less, and if we want to earn less we must work less. If that sounds shocking today, it is nothing more than a call to resume the great historical trend of declining working hours, the trend that was disrupted in the 1980s when falling working hours, once the principal measure of social progress, went into reverse.

Shorter hours or longer holidays mean workers take fewer of the benefits of productivity growth in money income and more in free time. Society could be just as vibrant and technologically innovative; the difference would be that we would have more time for activities that enhance our wellbeing, such as self-improvement, cultivating our relationships, caring for others, community work, hobbies and leisure.

Reducing annual working hours is the most powerful weapon in a process of managed decline. The decline in hours of paid work and consumption activity would begin the process of disentangling ourselves from the tentacles of the market that penetrate deep into the modern self. As such it would be a large stride on the path to regaining our inner freedom. In the newly liberated non-market domain we could witness the full flourishing of the art of life that was ever the dream of those who could see beyond the era of growth.

This is the challenge to modern social democracy, to transcend market thinking and re-imagine the human being as a creature in pursuit of flourishing rather than affluence, and thereby commit itself to the last of the great freedoms, inner freedom, so that we may be true masters of our personal and collective fate.