

Derailing the Gravy Train

Ross [00:00:28] Welcome to Renegade Inc. It was the economist John Maynard Keynes who famously said Practical men who believe themselves to be quite exempt from any intellectual influence are usually the slaves of some defunct economist. If Keynes is correct, whose influence has created the world we now live in?

Video clip [00:00:53] In April 1947 in a little Swiss village, a small band of economists met with plans to rewrite the global economic story. And they called it neo liberalism. Their method was ingenious. They described each economic actor with a set of such powerful traits that the rest of the script almost wrote itself. In the 1980s, when their laissez faire story was finally put on the international stage, the plot was loaded from the very start. And so for the last 40 years, we've been told that the market is efficient so give it free rein; that the state is incompetent so don't let it meddle; the trade is win win so open your borders; that the commons are tragic so sell them off; that society, well, there's no such thing so ignore it; and that the household is domestic so leave it to the women. With such a cast list, the triumph of the market seemed almost inevitable. And it's been driving us into social and ecological crisis. But we were also told that finance is infallible. And that was so clearly disproven in the global financial crash, that it's called the rest of the story into question, too. It's time to ditch this outdated neo liberal script. We need a new economic story that's fit for the 21st century, one that puts the economy in service to life. So how should that story begin?

Ross [00:02:23] Why is it when we look across the political class today, you see many, many centrist politicians, not just here in the United States, but also in the UK and across Europe, too, none of them can really, truly explain what is going on economically. And when they do try to, the public listen to them. And it has no effect on them whatsoever, because what the public are experiencing on the ground in their everyday lives is totally disconnected from what the political class are talking about. Why is that dichotomy in place?

Doug Henwood [00:02:53] Well, I think the fundamental problem is that the political class, you know, the business elite, the political elite, the pundits, all these folks can't admit that the society that made them rich and powerful and prominent is broken in a very fundamental way. And what came apart in 2008 hasn't really been repaired. We've had a weak cyclical recovery, but there's still all kinds of gaping structural wounds that are unaddressed. And people just don't trust what these folks have to say anymore. They've just been led by the nose for like the last 40 years into lives of increasing insecurity, instability. And now, of course, with the threat of climate catastrophe overhanging everything, people are scared and confused and don't trust the things they're told because they're being told lies.

Ross [00:03:38] And how much does the media have a role in that? It's not just the political class, because it seems to me, I've flicked on American television whilst we've been over here and you're sort of shocked.

Doug Henwood [00:03:48] It's egregiously stupid.

Ross [00:03:49] You said it, not me, and I didn't want to be unkind.

Doug Henwood [00:03:53] Every time I look at it, I'm just amazed. It's just a lie factory. And the stuff they're obsessed with is not what matters to people. The current obsession with the impeachment. I don't like Trump. I think Trump is awful. But you know, this election less than a year away and this impeachment just strikes me as a giant distraction from the task of defeating him politically, which is why I think what needs to be done. He needs to lose an election, not get impeached several months before his term would be up anyway. It just makes no sense. But I think this is an instance of the fact that political elites, and Democratic Party elites that are doing this, but even some of the more progressive people in the Democratic Party been pushing it. It seems as if they don't really have any agenda or any answers to the real problems of the country. And so they are engaging in this kind of circus. We need to see, you know, a rise of progressive wing of the Democratic Party, a kind of whether they call it Democratic Socialist or social Democrat, it's something different by American standards. So start with Sanders in 2016. And then, you know, Alexandria Ocasio-Cortez and these other people in Congress, folks at state legislature, city council. So there's been an influx of new blood with some radical ideas about how to change things. But the centre, the establishment is panicking at this and desperately trying to mobilise their defences. But they have no persuasive defences. So it's Putin or it's you know, God knows what. It's always something else. It's never a home-grown problem. It's something we did to ourselves, but we can't admit it.

Ross [00:05:14] Right. So when we talk about the politics, you very quickly get the economics right? So and people say, well, the politicians say, well, it's the economists and the economists say, well, you know, you need the political will and then we can be deployed to deliver what they say. So there's this sort of lack of accountability, this gap that occurs. Why has the economics delivered such a unequal and broken system?

Doug Henwood [00:05:35] Well, that was the point of it, really. You know, if we go back to the 70s, this is my, you know, two paragraph history in the last 40 years would be that in the 70s, you had a lot of alienation. Worker militants in the 60s hit the working class. In the 70s there was a spirit of rebellion, wildcat strikes. The U.S. had just lost the Vietnam War. So elites felt like they're really losing control of everything. You know, the problem is inflation. But I think part of what they meant by inflation was that sense of a loss of control. Things were just slipping off their moorings. So by the end of the 70s, you had business really mobilized and pushed for Volcker at the Federal Reserve, then Reagan to become president. And Volcker created this deep recession. Reagan busted the air traffic controllers union and broke labour and started slashing social spending, cut taxes for rich people and successfully prosecuted class war from above. It worked quite well for their point of view for several decades. Money just kept flowing upwards. The financial markets grew and grew and grew. The stock market kept making new highs. Corporate profits took a while to take off. But by the 90s, corporate profits were zooming and just a massive upward redistribution of income was underway to levels we hadn't seen the United States since the late 19th, early 20th century. And it's even gotten more intense since the financial crisis of 2008, which you thought might have broken it. But, no, we've gotten back to that model. But Reaganism and Thatcherism were attacks on the living standards of the masses, to use the old languages. But that creates a problem for a society that's economically and politically dependent on mass consumption. You know, you need the demand to keep the economic machine going, but you also need some ability to buy stuff in order to maintain the legitimacy of the system. So for a couple of decades, we had a lot of borrowing, consumer borrowing, credit cards first. And

then in the US we had a mortgage boom in the late 90s into the early 2000s. And not all came breaking apart in 2008. So since then, household borrowing has really been quite subdued. Not so business borrowing. That's another story. But all that borrowing that was able to help people make ends meet to maintain some simple semblance of a middle class standard of living, that broke. And we don't have anything that's replaced that either politically or economically. So we've had this very weak recovery, very slow consumption, consumption growth. And the sense that, you know, the unemployment rate is around three and a half percent. The US still doesn't feel very prosperous. So on paper, the economy is good, but it doesn't feel that way to an awful lot of people. So we have a deeply structurally broken system that needs a whole new model in order to get off the floor. It's broken. It's fallen and can't get up according to the old TV ad. And so we have this very long expansion and it's going to end. And I really don't know what's going to come next. But none of the serious underlying problems, the polarization and the instability that really came out to an extreme form in the 2008 crisis. That's that's still with us. So we haven't really done anything to repair it. Unlike, you know, the crash of 29, 33 led to the New Deal, a whole bunch of structural reforms that created a credible economic and political order that last for decades. And we didn't do anything like that.

Ross [00:08:43] Why has the centrist politician or the neoclassical neo liberal economist not been able to articulate what you've just said?

Doug Henwood [00:08:51] Because their self-interests would be at stake. They either represent or apologise for rich people, and they're perfectly fine with the polarization of wealth. And there's some who might think that the kind of instability that the working class experienced is good, it keeps labour discipline strong.

Ross [00:09:08] Well, Alan Greenspan famously said, you know, he wants a insecure workforce because that's the optimum condition and they should be in. That's the first time he's been honest about that.

Doug Henwood [00:09:16] Yeah, he's very explicit about that. In his testimony, congressional testimony late 90s, he would say things like, well, you know, the unemployment rate may be four percent, but its people are acting like it's six. You know, that's a good thing because they want people always to feel scared.

Ross [00:09:28] Where does that logically end? Because if someone isn't going to come in with a New Deal, if somebody is going to come in with new thinking, which allows the middle class to actually get up if it's fallen, which it has been eviscerated, where does all this end?

Doug Henwood [00:09:43] Not a pretty way, I guess, unless we get, you know, President Bernie Sanders comes in with a new New Deal, I don't know. But without that, it could we get very, very ugly? You know, just riots and authoritarianism and crackdowns. And it's pretty scary. And I think now you're seeing some plutocrats expressing worry.

Ross [00:10:01] Well, Ray Dalio, famously.

Doug Henwood [00:10:03] Yeah, he's one of the smarter of them. I'll give him that. I used to talk to him before he got really famous.

Ross [00:10:08] Does he return your calls now?

Doug Henwood [00:10:09] I haven't tried. But before he was famous or quite as rich as he is now, I thought he was an impressive and thoughtful fellow.

Ross [00:10:16] Is that because he had a wider view?

Doug Henwood [00:10:20] Yeah. I mean, he actually thought about something other than just...

Ross [00:10:23] Making money.

Doug Henwood [00:10:23] Making money, yeah. And people who spend a lot of their time in the market. Some of them have pretty wide views of the world, but some of them, you know, are just concentrating on the next tick and they don't really think about anything.

Ross [00:10:35] No.

Doug Henwood [00:10:35] But yeah, a lot of these guys are scared and I think rightly so. You know it's nice that their sleep is troubled. They're afraid they're gonna get their throat cut in the middle of the night. Now, that might be a nice feeling to inspire in our rulers, but there's still not a critical mass of them. And they're still not going to take any kind of meaningful action that will actually address the problem.

Ross [00:10:53] Because ultimately what you're saying is that they all say blinded because in a sense, what happened is the system has, quote, 'worked for them'.

Doug Henwood [00:10:58] It's worked very well for them, yeah.

Ross [00:11:00] in fact, has worked extraordinarily well.

Doug Henwood [00:11:02] Yeah.

Ross [00:11:02] And they then attribute their self-worth and their ability to the amount of the figures on a balance sheet or bank account. So why change it?

Doug Henwood [00:11:12] You go back and look at the Forbes 400 list. They first did it in the fall of 1982, which is when the great bull market of stocks took off. So it's kind of a historical moment, but I think it cost the price of entry into the Forbes 100, that was like 200 million dollars. And now, you know, there's nobody worth less than two billion. Like these kinds of billionaires just simply didn't exist more than thirty years ago. And now they're just on top of the world, really rich, really powerful. And they don't want to give that wealth and power up. But, you know, I guess who would? But I think at least in the back of their minds they're afraid something bad is going to happen. They're not quite sure what. But they're they're getting more afraid.

Ross [00:11:48] And do you agree with Bernie Sanders when he says that every billionaire is a policy mistake?

Doug Henwood [00:11:52] Yeah, I think that's true. If you look back at U.S. tax policy going into the 30s. When the Roosevelt administration raised tax rates up towards 90 percent, the point was quite explicitly not so much to raise revenues, but put a cap on incomes and to prevent the creation of that kind of billionaire class.

Ross [00:12:09] What happened?

Doug Henwood [00:12:10] The top tax rate state over 80 percent until the late 70s, early 80s, and it started bringing it down. And then that income cap was removed. And if you brought the tax rate back up to those kinds of levels, a lot of these fortunes would disappear. Of course they do their best to evade them, but they wouldn't be paying each other this much money if 90 percent of it was going to get taxed away. And so that's where the billionaire is a policy mistake that if we had these kinds of very progressive, steeply regressive income taxes, then they would be out of business. And most people think, oh, this is un-American. You know, Americans are like pro wealth and anti-tax. But in fact, we were the first country in the industrial world to adopt a serious income tax. And a part of it was a reflection of the populist tradition of the 19th century of hating concentrated wealth. And then we had these high tax rates from the 30s into the 50s. You know, even the Eisenhower years, which were, you know, conservative in many ways, but there was this broad consensus that just can't have that kind of wealth developing. There's a story from Fortune magazine like mid 50s, what the average CEO lived like then and was just like kind of a high end version of an ordinary suburban life.. Maybe the car is a little bigger, the house a little bigger. But they were not flying around in private jets, you know, and having their 14 card garages under the house and that sort of thing. It's a very, very different world and a lot of that as a result of the tax policy of letting these fortunes flourish. And of course, Reagan encouraged it. Clinton encouraged it. George W. Bush encouraged it. So it's been the celebration of the accumulation of extreme amounts of money has been no official political and cultural policy since the early 80s. And now I think it's reaching some poisonous fruition right now.

Ross [00:14:05] In that first half, we fleshed out a pretty brutal but realistic picture of what's going on in a lot of advanced economies - some people call it the developed west. But when you look across the west, are there any economies and countries that you think actually this is progressive and they're getting it right in comparison to what's going on here in the USA or maybe in the UK?

Doug Henwood [00:14:29] Well, you know, I guess I'm kind of old fashioned. I think there's a lot to admire in the Scandinavian social democracies. They've cut back on them. They've neo liberalized to some degree, but still, like there's nothing like the poverty and inequality their, nothing like the collapsing physical infrastructure or social infrastructure we in the English speaking countries. The special relationship seems to extend to decline as much as it did to the days of glory.

Ross [00:14:50] And it's that overreliance on neo liberalism, because when I say those words, an audience watching this are thinking what does that mean?

Doug Henwood [00:14:58] People who throw the word around refer to it as a curse word.

Ross [00:15:00] They do. But get behind it then. Unpick for us.

Doug Henwood [00:15:03] It means a couple of things to me. One is that - and this is the insight that Hayek and all his people around the Mont Pelerin Society.....

Ross [00:15:09] And Hayek was?

Doug Henwood [00:15:09] Hayek was a Viennese born economist and then spent his final years in Britain - one of the architects of the whole neoliberal model.

Ross [00:15:19] Through a society called the Mont Pelerin Society?

Doug Henwood [00:15:20] Mont Pelerin Society, yeah. He assembled like 40 of his colleagues in a Swiss town, Mont Pelerin, and basically, mapped out how they were going to transform the world. One of the crucial things they want to do is insulate what they call the economy, like some abstraction from social relations, from any kind of political interference. But what they understood was they took a strong state to do that. It's not like the market is a natural thing. There are some simple minded people who think the markets are just natural and just left to their own devices, societies will naturally tend towards a market relationship. But no, it it requires a whole set of state institutions and political institutions to create and preserve and defend markets. And people around Hayek understood this. And so they needed a very strong state to peel back the welfare state. They knew that they had to take control, undo what they saw as this creep towards socialism. But what they really meant by socialism was social democracy in the post-World War 2 years in the Western countries. They hated it and wanted to undo it.

Ross [00:16:21] So why did they hate it so much?

Doug Henwood [00:16:23] Because they really don't like the masses. They're very anti-democratic. Hayek himself was frankly extremely elitist. He thought that all the upper classes were capable of doing anything creative or in culture or in economics. Rich people need to be pampered. They're the creators of wealth for the rest of us and that we live off their crumbs. And that's really the model that they believe in deeply. But the other important aspect of neo liberalism is that it's a deeply individualistic philosophy. They're really opposed to anything like social solidarity. Hayek was contemptuous of the idea of social justice. He thought was primitive and tribal. And like all, we need to get rid of that nonsense. But any idea of political solutions to problems that people could have, like you don't join a union. You know, you don't like organized lobby the state for the kind of benefits or infrastructure investment or any kinds of publicly beneficial actions the state can undertake. No, you just get to write a better resume or go to a better school. You know, it's just all this deeply individualistic, self-reliant stuff. And that has a deep history in American culture, that kind of self-reliance. But they really took it to an extreme degree. There is this generations of people who thought that, you know, you just rely on yourself. You can't trust anybody, you can't rely on anybody else. So now we're seeing like a rebirth of politics to some degree. But there's this neoliberal overhang

where people just are sceptical of any kind of collective solutions, political solutions, to problems. You know, it's the only way out of this mess.

Ross [00:17:48] Right. So the centrist politician would say anything that comes across their desk or gets into public discourse, well actually, that's just socialism. So they've they batted away with the S bomb, right? But that's less and less effective now, isn't it, because younger generations are at that impasse where they know they're not going to live as well as the generations that have gone before them. And actually they're looking to socialism?

Doug Henwood [00:18:13] Yeah, the word polls well now among young people.

Ross [00:18:15] Right, because the neo liberal lot have taken it to such an extreme that now the pendulum has to start coming back.

Doug Henwood [00:18:23] Well, the funny thing is, you know, whenever anybody suggests anything good and they dismiss it as socialism, people think, well, maybe that socialism thing isn't so bad after all.

Ross [00:18:30] Right.

Doug Henwood [00:18:31] And when they called Obama a socialist. He wasn't in the least. But you know, are you kidding? So I think they discredited themselves. And now, of course, that the Soviet Union has been dead for almost 30 years, all that anti-communism that was so powerful for so long has lost all its sting, too. So people are able perhaps maybe to start thinking about a different way of doing things. But, you know, I was doing a piece on the Democratic Socialist of America for The New Republic magazine. Most of the membership is under 35. I go to their meetings in my North Brooklyn chapter. And I asked a couple, like, what are your long term thoughts on the long term strategy for the organization? What's the long term political strategy? And one of them said, I don't think there is a long term. And I just was really stunned by that. And I start asking around and there are a whole lot of younger people who think that the climate crisis is so severe that, you know, the human species has a very dark future and forget about retirement. They might not even live. Civilization might not live to that phase. And this is why a Green New Deal is so popular with a certain segment of the population, because it mixes the climate agenda with some kind of redistribution of social justice agenda. And it's a way of approaching those twin problems all at once. And I think a lot of younger people, in particular, find that a very satisfying approach and is a way out of this nihilism, the nihilism express that's hurtling over the edge. I was interviewing a historian who writes about the intellectual history of neo liberalism, Quinn Slobodian, and asking, well, what was their social ideal? And they really have one,.

Ross [00:20:07] Right.

Doug Henwood [00:20:07] You know, it's not like, you know, socialists have had this utopian dream, which they haven't always been clear in articulating. But there is some kind of utopian content. But it's just all market relations. I don't know.

Ross [00:20:18] That's so sterile.

Doug Henwood [00:20:20] Yeah.

Ross [00:20:20] How do you articulate that? How do you sell that? Do you just go hard for people's self interest, so you can be better than the next person?

Doug Henwood [00:20:21] Yeah, you can try that and then you bring in the police. You know, that was Pinochet, Chile. That was their dream.

Ross [00:20:33] And contextually, Milton Friedman, a Chicago boy, Chile was his test ground. Yeah. So when you see Chile today going up in flames and all the riots that go with that, are you surprised?

Doug Henwood [00:20:46] No, no, no. That was the original laboratory. I mean, I notice there was a sign that some of the protesters were holding up. Neo-liberalism was born in Chile, it'll die in Chile. It's very much that. The whole Pinochet revolution was brutal because it's like, as Friedman said, that agenda is just not popular. You can't do it democratically.

Ross [00:21:04] And now we see in the streets public orchestras and choirs coming together and people mobilizing in that way.

Video clip [00:21:45] Public orchestra and choir.

Ross [00:21:45] When you see that, is that scene an active rejection of neo liberal ideology?

Doug Henwood [00:21:52] Yeah. I mean, this feel like statements of solidarity and like human togetherness that the neo liberal agenda wanted to wipe out. And, you know, Sanders had great success when he said at a rally, 'Are you willing to fight for somebody you don't know?'

Video clip (Bernie Sanders) [00:22:07] I want you all to take a look around and find someone you don't know, maybe somebody who doesn't look like you, maybe somebody who might be of a different religion than you. Maybe they come from a different country. My question now to you is, are you willing to fight for that person who you don't even know as much as you're willing to fight for your self?.

Doug Henwood [00:22:45] That's the kind of spirit of solidarity that got lost in the last 40 years, but is something that we need to recover if we're ever going to have some kind of humane and decent society.

Ross [00:22:54] So if the neo liberals don't have a utopian dream to sell, ultimately what's within that idea is a lack of hope, a despair, a hopelessness. And that's what we're seeing now, isn't it?

Doug Henwood [00:23:07] Well, I think one of the striking features of the people around Trump, and a lot of the Republican Party and the people who support it, they operate in financial industries or extractive industries where they just suck out value and don't create anything. So like the Coke Network, a lot of them are like producers of dirty energy and they don't want any kind of regulation. They don't want any kind of labour regulation or anything

or be told what to do. And Trump himself. Who knows how rich the guy is. He lies about everything. But, you know, he did acquire some amount of money by loading up companies with debt, taking out the money and letting them collapse and declaring bankruptcy, repeatedly. So these guys are like a smash and grab kind of culture.

Ross [00:23:45] The march of the rent seekers?

Doug Henwood [00:23:46] Yeah. So you have literally these people drilling for oil or coal or whatever, like killing us with their carbon emissions or the kind of buccaneer financial culture around people like Trump and the private equity people who support him. And that really does strike me as nihilistic. They really don't think there's a future. I don't know whether they articulate it but their indifference to.... You know, no matter how rich you are, you can't escape the climate crisis. You know, they're developing these insane bunkers where they think they can go hide from it. Like really?

Ross [00:24:14] And all this chat around space travel and inhabiting new planets. I mean, surely we'll look back....

Doug Henwood [00:24:19] We broke the planet. Let's move on to a new one.

Ross [00:24:21] But isn't that perfectly neo liberal?

Doug Henwood [00:24:24] Yeah.

Ross [00:24:24] Because if you keep going, the logical progression of what you're saying is, there's only one thought, which is neo liberalism. We achieve it at any cost. Therefore, war is available to us - as we know with the war machine, incessant consumption, dirty energy. Everything is on the table. I mean, younger generations coming through and listening to that and having seen a lot of the social decay and the inequality, they're looking at this perplexed.

Doug Henwood [00:24:51] Yeah.

Ross [00:24:51] The last thing I want is to live like those generations of people.

Doug Henwood [00:24:54] Yeah.

Ross [00:24:54] Is that hopeful?

Doug Henwood [00:24:56] Yeah, it is. One of the things that is hopeful about the young folks. And it's easier for older people to make fun of some of their linguistic conventions. But I guess from going these DSA meetings and watching people the way they treat each other, they treat each other as such consideration. For me, when I was in the left in the 80s and 90s and it was really marginal and small, people were really nasty. There was no sense of comradeship or collegiality. And to watch the now, young people really do seem to care about each other's feelings, perhaps maybe bit too much if, you know, you're old and cynical. But there's some real deep, sweet sweetness and warmth to it that's really inspiring. And that goes with the politics. It is a politics that's much more solidaritaristic and forward-looking than anything we've experienced in, you know, 40, 50 years. And that's one of the few things

that gives me hope because, you know, the world looks pretty bleak right now in so many ways. But there is this younger generation, a significant number of them are really trying to turn things around. That gives me a great deal of hope.

Ross [00:25:54] And if you could sum all we've talked about up pithily as we end, what would you say to an audience who are watching this, who feel every day these problems, understand that class of people who've created them. What can they begin to do to start changing the way they interact with the political class and also working in a way to better their lot?

Doug Henwood [00:26:17] The need to get involved in politics and change things and act in solidarity. Join unions. Just get out on the streets and demonstrate. But realize that you have collective power, that you're not going to do anything on your own and that the system is stacked against you. But if enough people can make a difference, if they get together and challenge these these guys. One of the advantages, I'd say of the elite being so rotten now is that they may lack the strength to fight back because they really do seem to be out of intellectual at least. So maybe they're just they're so asleep and so weakened that they could be knocked over, one hopes.

Ross [00:26:54] This is the time?

Doug Henwood [00:26:55] I hope it is because we wait much longer it's going to be too late.

Ross [00:26:58] Doug Henwood, thanks very much for your time.

Doug Henwood [00:27:00] Thank you.