and job security were good for capitalism. Since the 1980s that consensus has been thoroughly displaced by another known as “neoliberalism”, especially in the Anglo countries and in international organizations those states control, including the World Bank, the IMF, and the Organization for Economic Cooperation and Development (OECD).[3]

There are many strands of neoliberalism, but they share the core idea that “the (private) market” is the best mechanism for meeting human aspirations, and better, in particular, than “the state”, which is inefficient and a constraint on freedom, though necessary for certain limited purposes like national defence and law and order.

This is how neoliberalism is generally presented. But the presentation actually conceals what neoliberalism is about. “The market” is the polite way of referring to “the owners and managers of capital, especially financial capital”. To say that “the market” is the best mechanism for meeting human aspirations is to say that the state and public policy should reflect what the owners and managers of capital want – “should reflect” because their preferences for state institutions and policies will benefit the whole society more than the preferences of other categories (workers organized in trade unions, for example). This is the sentiment behind slogans such as “a rising tide lifts all boats”, and “what is good for General Motors, and Goldman Sachs, is good for you and me”.

Alan Budd, Special Advisor at the UK Treasury in 1979-81, explained how the Thatcher government sought to create such a neoliberal structure in Britain by first creating mass unemployment, disguising the strategy as an anti-inflation strategy. Interviewed in 1991 he said, “The nightmare I sometimes have … is that there may have been people making the actual policy decisions, or people behind them, or people behind them, who never believed for a moment that this was the correct way to bring down inflation.

What was engineered there in Marxist terms was a crisis of capitalism which re-created a reserve army of labour and has allowed the capitalists to make high profits ever since”. [4]

no alternative to public spending cuts and shrinking the state, however unpalatable that may be. “Growth is the key to getting out of the crisis, we all agree on that”, said Jens Weidmann, head of the German central bank recently. “But renouncing budget consolidation will not bring us closer to that objective”.[6]

A simple – and no doubt simplistic – way to see the fallacies of a lot of neoliberal economic thinking is to consider the situation where 100 dogs are ushered into a room in whi

inefficiencies,

suddenly realised it wasn't very practical”, he said, without joking. Such was the zeitgeist when New Zealand was “a neoliberal model for the world”, and woe betide a New Zealand economist who argued against it.

top-rated US economics departments, and found that (in the early 2000s) only 9% thought that “a thorough knowledge of the economy” was “very important” for success. Broken down by year of study he found that 15% of first and second year graduate students thought it “very important”, while less than 1% of fourth and fifth year students thought it very important – suggesting that the already low level of interest in real-world economies among the first and second year students had been thoroughly beaten out of them by the fourth and fifth years.[12]

Deep socialization into the mathematically-elegant world view

The discipline accepted largely at face value the study by Carmen Reinhart and

Anyone who thinks economists' allergy to ethics is not a serious problem should see the films and . The former includes the memorable exchange:

Charles Ferguson (director): "A medical researcher writes an article saying 'To treat this disease, you should prescribe this drug'. Turns out doctor makes 80% of personal income from the manufacturer of said drug. Doesn't that bother you?"

John Campbell (chair of Harvard University's economics department): "I think ... It's certainly important to disclose the, um...The, um... Um... Well, I think that's also a little different from the cases we're talking about here, because, um....Um...."

Where neoliberal ideas reign one finds that substantial increases in inequality do not provoke much political attention or citizen concern (beyond talk-back radio). The standard reflex is to point to Steve Jobs, J.K. Rowling, Steven Spielberg, David Beckham and other contributors to the mass enhancement of life and say, "They obviously deserve their riches" – implying that the larger structure of income concentration carries no society-wide costs and that the government has no right to try to reduce income concentration at the top (except perhaps when an individual's riches are "undeserved").[20]

Like other Anglo countries, New Zealand has experienced a substantial rise in income inequality over the past three decades. In the early 1980s the top 10 percent of population received about a fifth of disposable income. Ever since the mid 1990s it has been more like a quarter. In the three decades to 2012 the average income of the top 10 percent grew (inflation-adjusted) by 63 percent or 1.6% per year, while the average income of the bottom 90 percent grew at less than half of that. [21] Most households in the bottom 90 percent experienced stagnant and falling real incomes for the first two decades, until economic policy began to abandon the most extreme forms of neoliberalism. Top 10% real

The top 1 percent did even better. Precise figures are not available, but estimates suggest that their share of total disposable income has risen from a low of slightly under 6 percent in 1980 to a bit under 9 percent today. But this includes only reported incomes, not realized capital gains or the large amount of income shifted into trusts (which pays lower taxes). Nor does it include the incomes of those living outside the country for part of the year who avoid having to pay any income tax at all (which does not prevent many of them being actively involved in New Zealand politics). [23] With these several kinds of income included the share of the top 1 percent would be appreciably higher.

This degree of income concentration puts New Zealand well into the more unequal half of the OECD countries. By comparison, the share of the top 1% in Scandinavia is around 5-6% of national income, and has remained flat since the 1980s (Norway was an upper exception for a few years in the 2000s). Other northwest European countries are similar. These countries demonstrate that it is possible to have a prosperous capitalism without income concentration as high as in NZ and other Anglo countries.

But New Zealand income concentration remains well below the US level, the United States having the most concentrated distribution among the OECD countries (apart from new developing country members like Chile and Mexico). The share of the top 1% in US national income (including capital gains) fell from a peak of around 23% in 1929 to reach a low of around 9% by the late 1970s, and then, with globalization, technical change and Reagan, rose fast to re-gain the 1929 level by 2006, paving the way for the great Crash of 2008. Another measure is the share of the   in national income accruing to the top 1%. During the expansion of the Clinton years (1990s) the share was about 45%, during the expansion of the Bush years (2000s) about 65%, and in 2009-12 (Obama) it was 95%.[24] Still another measure is the ratio of the remuneration of chief executives to that of the salary at the 50th percentile of total cash compensation for full-time employees in the same company or a subsidiary. Chief executives at Fortune 500 companies now earn on average 324 times the median. This is not a misprint.

British trends are similar to the US's, though not as extreme. Chief executives of the top 100 British companies now earn 185 times the median – making £4.8 mn or US$7.4 mn a year with a mix of salary, bonuses and long-term share plans. So British chief executives are impoverished compared to American counterparts. On the other hand, they have gained very handsomely compared to 1979, when the executive pay ratio was only 15 times the average wage.[25] And today they do very well compared to German counterparts; executive pay at the DAX 30 companies is "only" 90 times the average. Note that German CEOs are not relocating to New York or Dubai or retiring to play golf all day in p

If higher inequality countries (among the developed countries) were more prosperous, and if one could plausibly argue that their inequality was a necessary condition for their higher prosperity, then one could shrug off worries about inequality as merely "the politics of envy".

At first glance the US seems to suggest that inequality does go with prosperity: it is the most unequal of the developed countries, and also about the most prosperous by GDP per person (though below about seven European countries in terms of the more

The best summary of the social and health costs of inequality is the book by Richard Wilkinson and Kate Pickett,
[28] Testifying to public concern about rising inequality, the book has sold about 250,000 copies in 23 languages since publication in 2009

The best known correlations are those between inequality and health outcomes, though these are actually weaker than those between inequality and the social indicators. One major study concludes, “Our meta-analysis of cohort studies including around 60 million participants [and including studies across time] found that people living in regions with high income inequality have an excess risk for premature mortality independent of their socioeconomic status, age and sex…. Although the size of the excess risk seems relatively ‘modest’, it has potentially important policy implications for population health as income inequality is an exposure that applies to society as a whole”.[30] Another major study concludes, “The death rate for U.S. adults 18 years and older continues declining… thanks to substantial socioeconomic development, medical advances and the public health movement. But increasing income inequality in the past three decades suppressed the overall improving health trend. We might have seen an even higher extent of improvement of health if income inequality had remained at a relatively low level”.[31]

Then there is another debate about the likely causal pathways from levels of inequality to social and health outcomes. One is that higher income concentration is associated with a higher proportion of the population in relative poverty, and relative poverty is associated with poorer health and social outcomes. Wilkinson and Pickett go further, and argue that income inequality worsens health and social outcomes of not only the relatively poor but also the better off, through the mechanism of harmful effects of psychosocial stress. Some experts contest this latter argument.

Wilkinson and Pickett show a strong positive correlation between the level of income inequality and the density of the prison population: more unequal countries and US states have more people in prison per 100,000 population. New Zealand’s figures are a lot worse than the average for countries with its level of inequality. The prison population rose from 91 per 100,000 in 1987 to 199 per 100,000 by 2011; and for the Maori it is now around 700 per 100,000. On a world scale the extremes are the US, with around 740 per 100,000, and Iceland, with around 50. Scandinavia has around 60-70, Germany 90, the UK around 135, the highest in western Europe. So the New Zealand figure is far higher than the highest in western Europe. Yet crime rates have fallen significantly in the last twenty years.[32] Just how the rise in income concentration has helped to drive the Newation. N with each other and with foreigners; and classify information about the mass surveillance as top secret, and brand whistleblowers such as Edward Snowdon “traitors”. In fact, the intelligence services of western governments have long known full well about the US and others’ programs; Snowdon’s “crime” is that he revealed the programs to the public being surveilled, to whom governments are meant to be accountable. What is worrying is that large majorities of western populations have passively accepted the steady rise in income concentration, the proliferating number of super-rich, the harsh penal regimes, the cuts to social services in the name of spurious economics like “you can’t cure a debt problem with more debt”; and now the passive acceptance of mass surveillance. [33] Passive and fearful acceptance would not be surprising in a military dictatorship; but we in the west live in democracies.

The political costs of income concentration at the top include the erosion of the old understandings of the social compact binding states to citizens, as the resource flows based on these understandings are squeezed by the concentration of income at the top and by the ability of the rich to get their preferences translated into government policy when their preferences diverge from those of middle- and low-income voters (see below).

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[33] I asked several prominent New Zealanders whether the Snowdon revelations about the US Justice Department scooping up data on telephone calls and internet communications had raised alarm bells in New Zealand, given that NZ and its Government Communications Security Bureau (GCSB) is a member of the five-country sharing entity at the core of western intelligence (with US, UK, Canada, Australia). They seemed to know virtually nothing about it, and evidenced no concern. My question stems from my and many others’ concern that the US Patriot Act section 215 allows the FBI and the NSA to obtain court orders for surveillance – from the highly secret Foreign Intelligence Surveillance Court – on grounds that it might produce evidence “relevant” to an investigation, and not just a present investigation but a possible

The upshot is a tendency for “establishment” elites to become “plutocratic” elites, the latter concerned mainly to use the levers of state power to create a structure of laws and markets which channels income and wealth upwards; and rely on a combination of penal institutions, Murdoch-like media, and neoliberal economists to obtain social compliance. As the income ladder stretches up, those high on the ladder tend to demonstrate a widening “money-empathy” gap, in the sense that their having far more

Research by Benjamin Page and colleagues comes to much the same conclusion about the preferences of ordinary Americans and those of the very wealthy.[38] The average American is somewhat worried about large budget deficits, unsurprisingly given the barrage of media focus on the deficit as the big problem. But the wealthy by a large margin regard the deficit as the most important problem, not unemployment or part-employment; and say that it must be cut by cutting welfare spending, not by raising taxes. The wealthy also say that the minimum wage should not be linked to the cost of living, contrary to the preferences of the majority. Actual policy reflects upper-class preferences. As Paul Krugman summarizes, “What the top 1 percent wants becomes what economic science says we must do”.[39]

Another study starts from the staple of democratic theory, the argument that active participation in associations and civic organizations is crucial to a vibrant democracy.[40] It examines the relationship between household income and civic participation (such as voting, visiting public officials, participating in school groups, civic and religious organizations) as the current recession developed from 2008 onwards. It finds that the already low level of civic participation by low-income households (under $30,000 a year) fell; the higher level of participation by middle-income households also

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The center-left should be able to capitalize on the fact that high income concentration probably means that a majority of the population experience stagnant or falling incomes, and a squeeze on tax-financed social spending.

Here are several points that should go into a center-left strategy.

One of the

A further major change to be promoted by the center-left begins by challenging the standard neoliberal opposition between “state and market”, based on the idea that “the market” is natural and the state is “artificial”; which goes with a constant talking down of the state and talking up of the private sector, as though the that drove Google's search engine. Early funding for Apple came from the US government's Small Business Innovation Research Program. Moreover, in the words of Mariana Mazzucato, "All the technologies which make the iPhone 'smart' are also state-funded… the internet, wireless networks, the global positioning system, microelectronics, touchscreen displays and the latest voice-activated SIRI personal assistant."[47]

The reason why the state role has been seminal is beyond the ken of neoliberal economics: it is that private companies will not bear the uncertainties, time spans and costs associated with fundamental innovation; and the more competitive, finance-driven the economy the less its firms will bear these risks.[48] (In another blow to neoliberal economics, the great breakthrough discoveries from the private sector – from Bell Laboratories, for one – came from monopolists, with money to spare.) The US state has not only born the costs of many breakthrough innovations; it has acted as an entrepreneur, providing directional thrust to entrepreneurship in the private sector. The problem is that the neoliberal conviction about the sanctity of private profit then kicks in, with the result that the public sector hands over innovations to the private sector for almost no return, while the private sector appropriates the credit and the profit -- so the neoliberal dictum "The government cannot pick winners but can pick losers" prevails, and state budgets (including for research) continue to be squeezed. The solution is to implement "taxpayer warrants", such that the public sector earns royalties on innovations (in IT, pharmaceuticals, etc.) from which the private sector profits. This is all the more imperative if societal challenges like climate change, 348.5029 585 cm BT 50 0 0 5023.08 cm B 0.2 (h t.2

be far too slow.[51] That the economics profession in developed countries operates within the ideological precepts of neoliberal economics and largely ignores the non-neoliberal programs of industrial policy is testimony to the epistemic certainty of the neoliberal core.

Of course, in a small open economy like New Zealand the constraints on an entrepreneurial role of the state are tighter than in a much larger and less open economy like the US. The owners and managers of large businesses can always threaten to exit, and exporters can put all their lobbying efforts into keeping labor costs as low as possible, ignoring the Keynesian mechanism of higher wages translating into higher demand. But it would be possible to counter these tendencies by a government talking up its entrepreneurial role in assisting firms to shift to a "high productivity-high wage" path; which entails more tripartite collaboration around the vision of a national project in forums like the old Planning Council, and more public effort at building up New Zealand-based supply chains, along the lines of what Taiwan's Industrial Development Bureau has done ever since the 1950s.[52]

. Then there are a whole set of issues around the representational biases in democratic politics reported earlier, and the effects of the hollowing out of middle classes on civic participation. One issue is to do with the "minimum wage". Increases in the minimum wage tend to raise median wages, and increases in both can be expected to raise participation in democratic society. A
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plutocratic elite is likely to fear such an increase in participation and to resist wage increases not only for profit reasons but also for political reasons. But everyone who values a vibrant democracy should support efforts to rebalance power in the labor market, including through higher minimum and living wages and an expansion in the legitimate role of trade unions (drawing inspiration from their role in Germany and Scandinavia).

A second issue under the heading of correcting representational biases is political party financing.[53] As long as political parties and candidates depend heavily on a relatively small number of donors and lenders – which goes up as income concentration rises -- their policies and commitments will incline towards the wealthy when the precm BT 50 0.24 89.87988 267.48 cm BT 2 (s) -0. BT 50 8cm BT 50 ehend So0.2.2 ( )] TJ ET provide public funding. Although long and careful, and launched with fanfare, the report died on the day of publication. Nothing more has been heard of it, to audible relief in the corridors of Westminster.

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