

Neo-Socialism Down Under

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Kevin Rudd reinvents a philosophy to justify bigger government.

From Washington to Tokyo to London, politicians the world over are using the global financial crisis as cover to extend their powers. In Australia, Prime Minister Kevin Rudd is taking that tack a step further -- he's manufacturing a philosophy to justify his actions.



Kevin Rudd.

In an essay published in the February issue of the Monthly magazine, Mr. Rudd lays out his vision for "social capitalism"; a kind of halfway house between what he calls "extreme capitalism" and "an all-providing state." "Whatever the nomenclature," he writes, "the concept is clear: a system of open markets, unambiguously regulated by an activist state, and one in which the state intervenes to reduce the greater inequalities that competitive markets will inevitably generate."

This is a vision for a greatly expanded state cloaked under the rubric of "free markets," one in which Canberra would decide what inequalities were worth smoothing out and which ones weren't. Australia had that model once; it was called the Gough Whitlam government. In the 1970s, Mr. Whitlam nationalized health and higher education, hiked public-sector wages, increased government spending and pandered to labor unions, a key Labor Party constituency. The result was one of the worst recessions in Australia's modern history.

That's why the Labor Party -- the same Labor Party that Mr. Rudd belongs to -- embraced truly free markets, trade liberalization and deregulation in the 1980s and 1990s. Those reforms underpinned 17 consecutive years of economic expansion. Mr. Rudd makes only

a passing reference to this record, acknowledging the Bob Hawke and Paul Keating Labor governments' "ambitious and unapologetic program of economic modernization." He goes further: "Neo-liberalism, and the free-market fundamentalism it has produced, has been revealed as little more than personal greed dressed up as an economic philosophy," he writes. This is a far cry from the economic conservatism for which Mr. Rudd was elected in 2007.

In his essay, Mr. Rudd uses the global financial crisis as a cover to attack his political opponents and talk up his own recent record. The opposition Liberal Party, Mr. Rudd writes, is "the political home of neo-liberalism in Australia" and bears blame for the current financial crisis, while Labor "has acted decisively through state action to maintain the stability of the Australian financial system."

The irony is that Australia was better prepared to deal with the financial crisis because of its long record of liberalization and sound regulatory oversight. Australia wasn't hit by a slew of subprime mortgage defaults or bank runs. Its problems came courtesy of muddled government interventions on foreign shores. Mr. Rudd's Labor government reacted by guaranteeing bank deposits at taxpayer expense, banning short selling and proposing huge public spending programs.

Milton Friedman once wrote: "What most people really object to when they object to a free market is that it is so hard for them to shape it to their own will." It's not necessary to read between the lines of Mr. Rudd's essay to understand that that's what's going on here.