

Austerity Breeds Extremism

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Europe's debt crisis has seen the rise of fringe political parties across the continent. History teaches us that austerity breeds extremism - and Australia is not immune, writes Ian McAuley

The 1919 Treaty of Versailles, cobbled together by the victors of Europe's 1914-18 War, was based on the idea that peace in Europe could be assured by imposing a crippling debt burden on Germany for war reparations. The Australian Prime Minister, Billy Hughes, was solidly behind the French in seeking tough conditions on Germany.

John Maynard Keynes was one of the few who prophetically understood the folly of imposed austerity, in his work of the same year "The Economic Consequences of the Peace". Europe's next 20 years saw economic and political strife for both the losers and the victors of that conflict.

Europe's open trading regime of the 19th century was not re-established; instead countries turned inwards, pursuing policies of competitive devaluations and protectionism, comparable to today's policies of competitive austerity. In the resulting turmoil the competing economic philosophies of socialism and market capitalism both lost legitimacy, giving space for the rise of extremist politics.

Are we now seeing something similar in Europe? A wave of elections in recent days is revealing huge discontent with the politics of austerity. In France Francois Hollande's victory is more complex than a swing to the left, for it was helped significantly by the absence from the polls of many people who in the first round had given Marie Le Pen's far right Front National 18 per cent of the vote.

In Britain the Labour Party has staged a dramatic comeback in local government elections. In Germany the Schleswig-Holstein state election has seen the Christian Democrats lose office in a strong swing to the Social Democrats, Greens and fringe parties, a defeat on the scale of our recent Queensland election

The greatest shock was in Greece. Compare the Greek outcome to an Australian context. We are accustomed to politics as a tussle between the Coalition and Labor, who, between them have generally scored more than 80 per cent of the primary vote. The two main Greek parties, New Democracy and Pasok, similarly enjoyed a combined vote of 77 per cent just three years ago. Their combined vote on the weekend was down to about 35 per cent, with the balance of support split among many parties, including neo-nazi and communist parties who both gained 6 to 8 per cent of the vote.

The immediate economic consequences of these political movements are not clear, but they certainly don't point to a smooth ride for Europe.

A policy response of continued austerity would see a continuation of sluggish growth and political turmoil. A Greek default would weaken confidence in the Euro, and may undo the good work of whole post-war European movement to economic integration, designed to protect against the ghastly history of the 1930s. Fiscal loosening may not work if the funds so released are simply recycled back into government bonds.

Whatever the outcome, it looks like Europe is in for a summer of discontent.

Australians might smugly overlook these developments. Our media will undoubtedly be concerned with more important matters, such as Peter Slipper's Cabcharge vouchers, and they may give some decent coverage to tomorrow's Budget.

But these developments do matter for us. For a start, Europe is still a big player in the global financial system, and is a major market for China. We will feel these repercussions.

The other lesson is political. We have two main political parties both committed to fiscal austerity — to a degree that not even Europe's Christian Democrats and Tories would contemplate. (Sweden and Norway are the only significant European countries running a budget surplus.) Our opinion polls show Labor in the doldrums and the Coalition Opposition riding high, pointing to a likely Coalition victory next election.

That would be to replace a government which, in terms of economic policy, has governed reasonably well in a difficult situation, with one without any coherent economic policy, other than Tony Abbott's ideas of boosting middle-class welfare while cutting taxes. This can only mean cutting back on investments in our human, environmental and physical capital which would secure our long-term prosperity. It's a "balanced budget"

version of the Greek and Spanish model of economic management — a welfare state supported by running down the nation's productive base.

Would the political disillusionment of an Abbott Government see a comeback of Labor, and a strengthening of the Green vote? Or would we see the rise of extremist parties to political strength as is happening in European democracies? This is a realistic scenario if an Abbott government would be reckless enough to break the Greens in the Upper House by calling a double dissolution — senators can be elected on a mere 7.7 per cent of the vote.

As John Kenneth Galbraith said, "all pessimism has an air of authority", and this analysis is certainly pessimistic. Its message is that we urgently need political re-engagement, involving real policy debates. That may involve people, particularly younger people, joining political parties and displacing the time-servers wasting precious space on the Parliamentary benches, too cowed by party discipline to speak their minds.

It may even require new political movements to be formed, on the basis that there are wider interests in the community than the fortunes of mining moguls and jobs for trade union hacks.