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Jane Kelsey (2015) The FIRE Economy: New Zealand's Reckoning. Wellington, New Zealand. Bridget Williams Books with the New Zealand Law Society


International Journal for Crime, Justice and Social Democracy, 2017; 6(4):119-121

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Published version <http://dx.doi.org/10.5204/ijcisd.v6i4.446>

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29 June 2020



<http://hdl.handle.net/2440/126214>

International Journal for Crime, Justice and Social Democracy



Book Review

Jane Kelsey (2015) *The FIRE Economy: New Zealand's Reckoning*. Wellington, New Zealand. Bridget Williams Books with the New Zealand Law Society.

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In *The FIRE Economy*, Jane Kelsey provides an important critique of the two defining developments in the contemporary political economy of global capitalism. These are the rise of neoliberalism and the growing importance of a financialised economy—or FIRE (Finance, Insurance and Real Estate) economy—to maintain economic growth. Kelsey regards these two trends as being ‘organically inseparable’ (p. 121) and seeks to interrogate their political and economic impact on society through a national case study set in New Zealand. Broadly speaking, neoliberalism refers to a political doctrine that privileges individualised and competitive market-based exchange as the most efficient manner by which to ensure general material prosperity and political freedom. For Kelsey, however, it represents for reasons outlined below an ‘ideological extreme’ that has nevertheless ‘infused public policy and political debate’ in advanced economies from the 1980s onwards (p. 133). The development of New Zealand’s FIRE economy can be traced to this growing political hegemony of neoliberalism, a trend which in turn emerged as a response to a major and sustained economic downturn in the most developed capitalist economies during the 1970s. During this latter period, financial speculation that had been heavily regulated since the 1929 Great Depression began to re-emerge as a resource for boosting falling profit rates in the United States initially, then developing into a global pattern.

The availability of high profit margins at quick turnover rates in financial trading meant that over time this gradually displaced industrial activity as the key sector driving economic growth in developed economies, aided by the re-location of industrial production to low-wage developing regions. However, as neoliberals never tire of telling us ‘There is no such thing as a free lunch’. The lure of easy financial profiteering comes with risk of a significant increase in economic volatility since asset prices are vastly inflated using borrowed money. Or, as Kelsey succinctly puts it, finance is the practice of ‘making money out of (lots of borrowed) money’ (p. 46).

Capitalist economy is driven by a structural imperative to endlessly increase one’s capital so as to ensure competitive survival. FIRE trading allows agents to act upon this imperative in spectacular ways. Investment wealth made available to traders in vast global money markets is multiplied using debt leveraging, allowing traders to borrow, speculate and profit or lose at scales far in excess of other forms of economic activity. But this can continue only as long as bank funds

are freely available and investor confidence is high. If either of these factors changes negatively, an asset bubble quickly becomes an asset rout as prices collapse, as they did in 1929, again during the 2000 Dot.com collapse, and yet again during America's 2007 subprime crisis that spread globally, to name but a few of the major financial crashes over the last century. In what should be a cause for concern for New Zealand's political class, Kelsey argues in Chapter 3 that the state's FIRE-biased economy contains features that historically have precipitated large-scale financial crises. These include: 'a credit boom, rapid financial expansion, skyrocketing property prices, massive household debt tied to housing, and burgeoning private and external debt' (p. 46).

Unfortunately modern politics based on the election cycle is epitomised by short-term instrumental action that exhibits little concern for the lessons of history. For example, while the destruction of the 1929 depression led governments the world over to institutionalise an economy that heavily restricted financial speculation to avoid such an outcome reoccurring, that lesson holds no weight within neoliberal economic policy. One of the strengths of Kelsey's analysis is the manner in which Chapter 5 outlines how the financialisation of New Zealand's economy has been made possible by reconstruction of the state's institutional fabric in accordance with neoliberal doctrine. This has involved not only de-regulation of existing safeguards against speculation, but also artfully entrenching changes so deeply that the regular changes in government required by democracy cannot impact on the economy in any meaningful manner, an outcome Kelsey refers to as 'embedded neoliberalism' (p. 126). The following extract is instructive on the political mentality underpinning such a project: '...the intellectuals who drove this transformation set out to anticipate and neutralise what they variously called "the commitment problem", "political slippage" and "despotic democracy", and to embed their new regime as deeply as possible.' (p. 121). As Kelsey's analysis highlights, neoliberal capitalism, far from supporting democracy as notably argued by Milton Friedman's (1962) *Capitalism and Freedom*, is corrosive of popular representation and political equality, a point I return to below in relating Kelsey's analysis to the focus on corruption in this special issue.

Kelsey admirably strengthens her argument by using a wide range of authoritative sources from which data are drawn, ranging from respected critical orthodox economists Thomas Piketty and Emmanuel Saez to reports by the International Monetary Fund, the Stiglitz Commission and the World Economic Forum. A thorough data set combined with a historical grounding of neoliberalism's development and dissemination allow Kelsey to develop a rich analysis of the complex interaction between politics, economy and ideology that have shaped the concrete relations of growing economic and political inequality in New Zealand's FIRE economy.

One minor weakness of the book is that Kelsey provides a one-sided critique of financial derivatives trading in relation to New Zealand's *Public Finance Amendment Act* passed in 2004. Derivatives constitute a very important financial tool in today's volatile global economy. The 2004 Act allows the Minister of Finance to engage in derivatives and related trading without parliamentary approval, which Kelsey argues may expose citizens to 'long-term liabilities' (p. 199). What Kelsey fails to note is that derivative trading is, among other things, used as a form of insurance by hedging against future price movements. Bryan and Rafferty (2006) argue derivatives are now an essential tool, whether we like them or not, to protect wealth in a financialised global economy. The speed at which modern financial markets operate means it would be impossible to use this financial tool if parliamentary oversight was required in each case. Thus a fuller appreciation of derivatives is missing here.

To finish, I return to the problem of democracy under embedded neoliberalism. Neoliberals, on the one hand, argue that only a free market with a minimum amount of state regulation of social life can ensure political freedom. On the other hand, as Kelsey argues, they have done everything in their power in New Zealand to negate electoral democracy and replace it with an 'economic constitution' (p. 129). The latter means that what the market demands of a nation-state's government takes precedence over what the state's citizens may demand democratically. Further,

what the market demands is simply an aggregation of the demands made by powerful market actors, such as corporations, global hedge funds, and largescale holders of capital—the billionaires of this world.

Consequently, embedded neoliberalism is really about the destruction of democracy and its replacement with plutocracy, since representational democracy is replaced by market authoritarianism. In this way, neoliberalism, with its doctrine that claims to seek economic freedom *and* political freedom for all, is fundamentally corrupt due to the contradictory nature of its practice. The revealing of this movement to reduce democratic politics to economic imperatives is one of the most harrowing insights of Kelsey's excellent analysis.

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