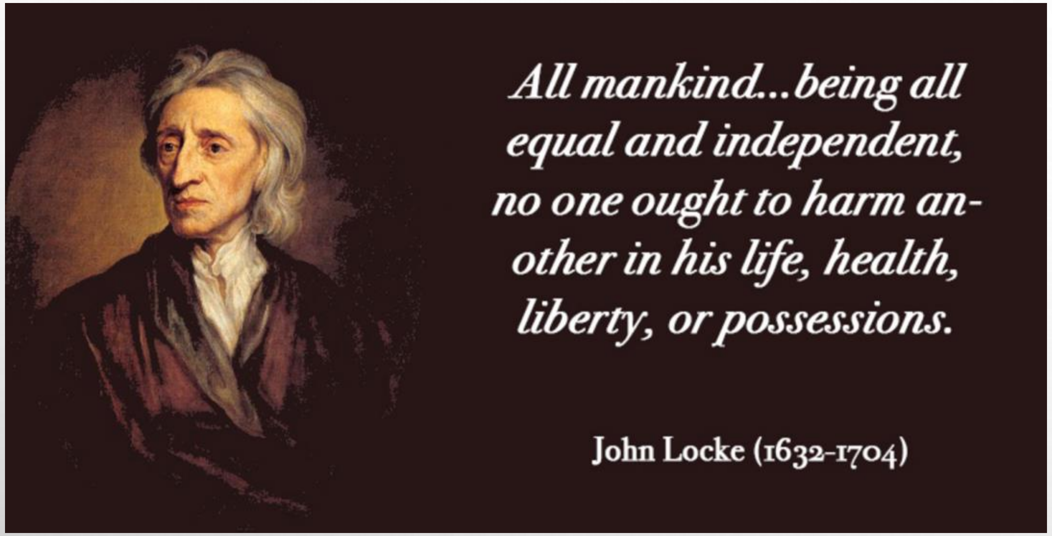
PART 4.1

Dynamics of Capitalism (III):

Neoliberalism

CLASSICAL LIBERALISM



- Classical liberalism arose in tandem with the Enlightenment movement of the late 17th and the 18th centuries which proclaimed reason as the foundation of **individual freedom.**
- Enlightenment thinkers like ***John Locke*** argued that in the 'state of nature', all men were free and equal.
- Naturally endowed with the right to life, liberty, and property, humans could legitimately establish only limited governments whose chief task consisted of securing and protecting these individual rights, especially private property.

CLASSICAL LIBERALISM

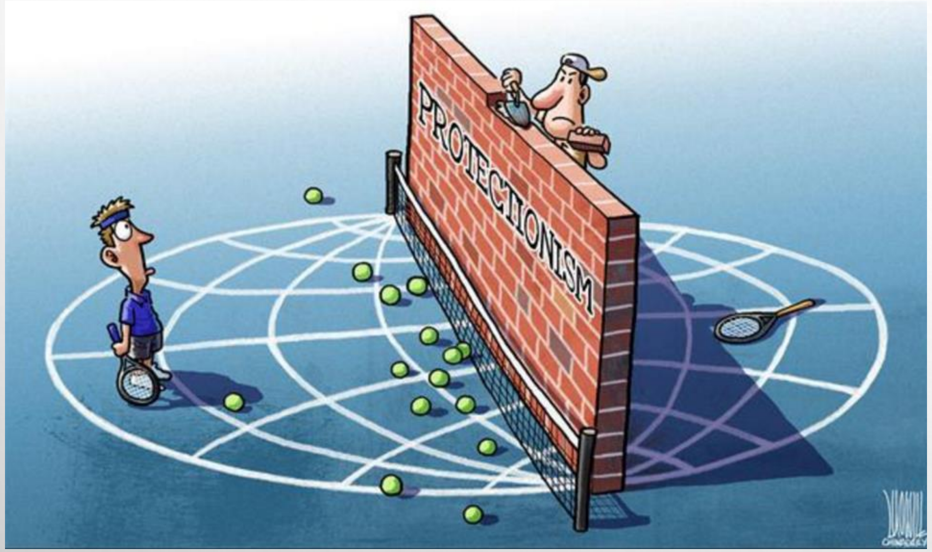
- The neoliberal ideal of the **‘self-regulating market’** as the main engine powering the individual’s rational pursuit of wealth – had been a core tenet of economists since the late 18th century.
- Opposed to the **mercantilism** of monarchs who exercised almost total control over the economy in their efforts to amass large quantities of gold
- **‘Classical liberals’** like *Adam Smith* and *David Ricardo* preached the virtues of the **‘free market’** and **‘laissez-faire’** economics.

CLASSICAL LIBERALISM

Smith:
- *Homoeconomicus*
- People are isolated individuals whose actions reflect mostly their material self-interests.
- Economic and political matters are largely separable.
- Economy operates best without government interference under a harmonious system of natural laws.
- The state instead use its power to guarantee open economic exchange.

Ricardo:
- Theory of ‘**comparative advantage**’
- Free trade amounted to a win–win situation for all trading partners involved
- It allowed each country to specialize in the production of those commodities for which it had a comparative advantage.
- Politically, Ricardo’s theory amounted to a powerful argument against government interference with trade and was used by 19th-century liberal.

CLASSICAL LIBERALISM

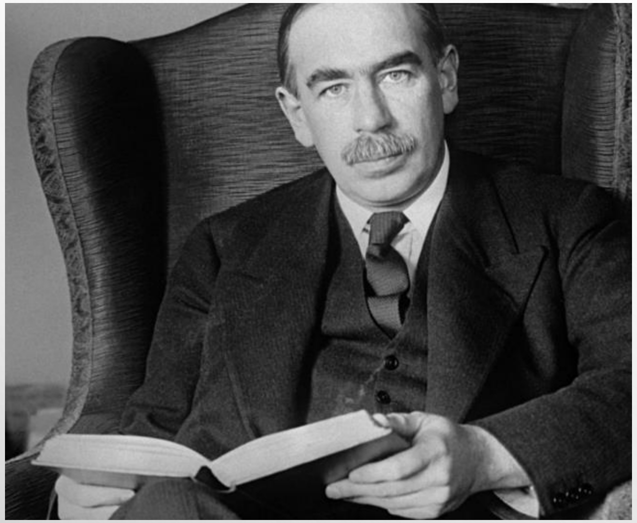


- Classical liberals argued that the '**invisible hand**' of the market ensured the most efficient and effective allocation of resources while facilitating peaceful commercial intercourse among nations.
- Their ideas proved to be a potent force in fomenting the great 18th-century revolutions that toppled royal dynasties, separated church and state, and shattered the dogmas of mercantilism.
- Classical liberalism sought to convince people that bad economic times always reflected some form of **'government failure'** – usually too much state interference resulting in distorted price signals.

AGAINST CLASSICAL LIBERALISM

- But the turbulent **20th century** soon cast a dark cloud on these ‘truths’ of classical liberalism
- The fury and longevity of the **Great Depression** convinced leading economic thinkers like ***John Maynard Keynes*** and ***Karl Polanyi*** that government was much more than a mere ‘night watchman.
- They criticized classical liberalism for its inability to recognize that modern capitalism had to be subjected to certain regulations and controls by a strong secular state.
- They disagreed with **Marxists** who saw the persistence of economic crises as evidence for the coming collapse of capitalism and the victory of a ‘revolutionary proletariat’ that had seen through the ‘ideological distortions’ of the ‘ruling bourgeoisie

AGAINST CLASSICAL LIBERALISM



- **Keynes**, in particular, advocated massive government spending in a time of economic crisis to create new jobs and lift consumer spending.
- He challenged classical liberal beliefs that the market mechanism would naturally correct itself in the event of an economic crisis and return to an equilibrium at full employment.
- Committed to the market principle but opposed to the ‘free market’, ‘Keynesianism’ even called for some state ownership of crucial national enterprises like railroads or energy companies.

INTERNATIONAL ECONOMIC INSTITUTIONS

- Keynes led the British delegation at the 1944 Bretton Woods Conference in the United States, which established the post-war international economic order and its international economic institutions.

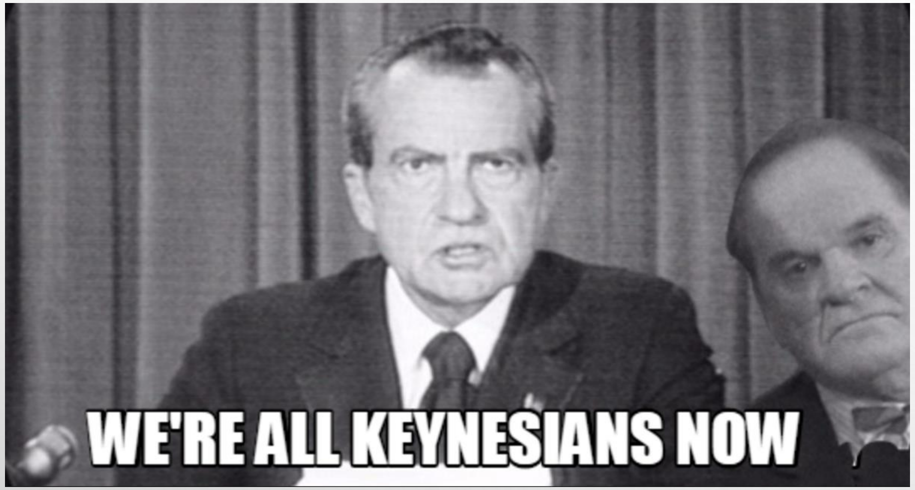
INTERNATIONAL ECONOMIC INSTITUTIONS

- **The International Monetary Fund (IMF)** was created to administer the international monetary system.
- **The International Bank for Reconstruction and Development**, later known as the **World Bank**, was initially designed to provide loans for Europe's postwar reconstruction. During the 1950s, however, its purpose was expanded to fund various industrial projects in developing countries around the world.
- Finally, **the General Agreement on Tariffs and Trade (GATT)** was established in 1947 as a global trade organization charged with fashioning and enforcing multilateral trade agreements. In 1995, **the World Trade Organization (WTO)** was founded as the successor organization to GATT and subsequently became the focal point of intense public controversy over its neoliberal design of free trade agreements.

CONTROLLED CAPITALISM

- The political applications of Keynesian ideas inspired what some economists called the '*golden age of controlled capitalism*', which lasted roughly from 1945 to 1975.
- National governments controlled money flows in and out of their territories.
- High taxation on wealthy individuals and profitable corporations led to the expansion of the welfare state.
- Rising wages and increased social services in the wealthy countries of the global North offered workers entry into the middle class.
- Broad political consensus among Western nations led some pundits to proclaim the 'end of ideology'

CONTROLLED CAPITALISM



- It was the Keynesian advocacy of an interventionist state and regulated markets that gave ‘liberalism’ its modern economic meaning.
- A doctrine favoring a large, active government, regulation of industry, high taxes for the rich, and extensive social welfare programs for all.
- These delivered spectacular economic growth rates, high wages, low inflation, and unprecedented levels of material wellbeing and social security.

LIBERTARIANISM

- Libertarianism is a political creed hostile to government intervention
- Often associated with the economic doctrines of **Friedrich von Hayek and Milton Friedman**, libertarianism is a political creed hostile to government intervention.
- While sharing general agreement with mainstream liberalism on the primacy of individual liberty, most libertarians are strictly opposed to other liberal values such as equality, solidarity, and social responsibility.
- Rejecting modern governments as illegitimate for their use of ‘coercive’ policies, many libertarians subscribe to the utopian ideal of a loose ‘society’ of autonomous individuals engaged in strictly voluntary forms of exchange.
- Indeed, some libertarians go even so far as to demand the wholesale abolition of the state.
- Vowing to stem what they saw as the ‘rising tide of collectivism’ – be it Marxism or even less radical forms of state centered planning – Hayek and his colleagues sought to revive classical liberalism in their attempt to challenge the dominance of Keynesian ideas.

LIBERTARIANISM

- Libertarianism is a political creed hostile to government intervention
- The neoliberal principles advocated by Hayek's Society greatly influenced the American economist **Milton Friedman**, winner of the 1976 Nobel Prize.
- The charismatic leader of the **Chicago School of Economics** (based at the University of Chicago), Friedman had an influential hand in guiding neoliberalism from constituting a mere minority view in the 1950s to becoming the ruling economic orthodoxy in the 1990s.
- Monetary policies should take precedence over fiscal policy (taxation and redistribution policies) devised by 'big government.

NEOLIBERALISM

- **'Neoliberals'** subscribed to a common set of ideological and political principles dedicated to the worldwide spread of an economic model emphasizing free markets and free trade.
- But they emphasized different parts of their theory according to their particular social contexts.
- Detested by the Keynesians, the Neoliberals argued that crippling government regulation, exorbitant public spending, and high tariff barriers to international trade had been responsible for creating conditions that led to high inflation and poor economic growth throughout the industrial countries in the 1970s.

THE THREE DIMENSIONS OF NEOLIBERALISM

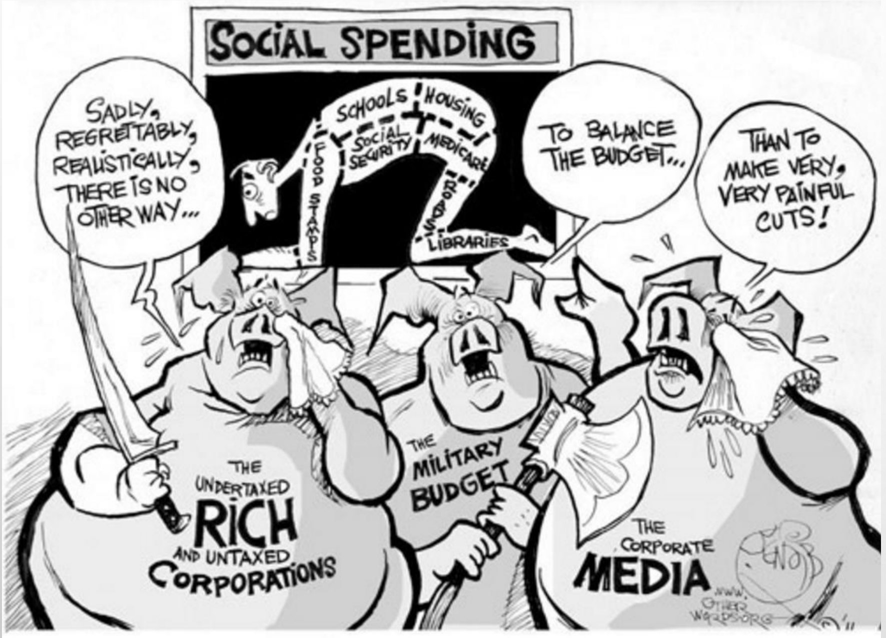
- 'Neoliberalism' is a rather broad and general concept referring to an economic model or 'paradigm' that rose to prominence in the 1980s.
- There are three conceptualized manifestation:

  (1) An ideology
  (2) A mode of governance
  (3) A policy package

IDEOLOGIES

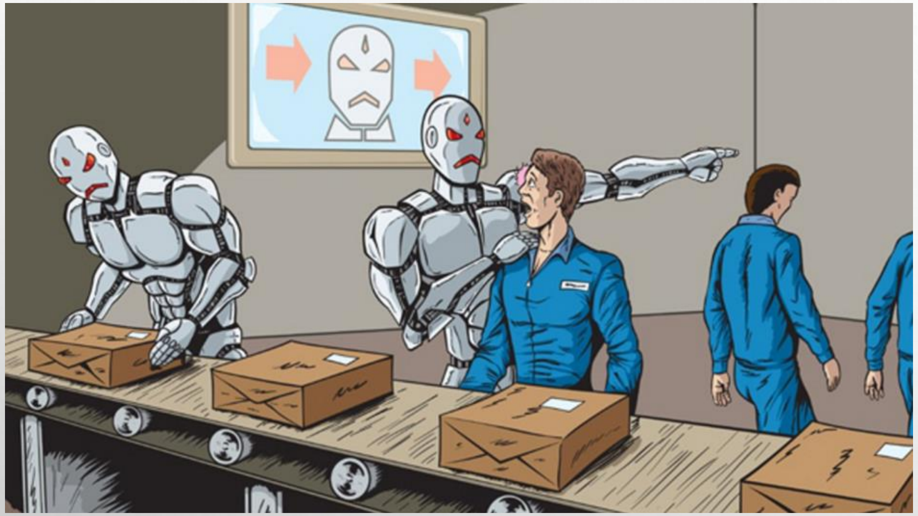
- The codifiers of neoliberalism are global power elites that include
  - managers and executives of large transnational corporations,
  - corporate lobbyists,
  - influential journalists and public-relations specialists,
  - intellectuals writing for a large public audience,
  - celebrities and top entertainers,
  - state bureaucrats,
  - Politicians
- Serving as the chief advocates of neoliberalism, these individuals saturate the public discourse with idealized images of a consumerist, free-market world.

IDEOLOGIES



- Their ideological claims are laced with references to global economic interdependence rooted in the principles of free-market capitalism:
  - global trade and financial markets,
  - worldwide flows of goods, services, and labour,
  - transnational corporations,
  - offshore financial centers, and so on.
- Skillfully interacting with the media to sell their preferred version of a single global marketplace to the public, they portray globalizing markets in a positive light as an indispensable tool for the realization of a better world.
- Such market visions of globalization pervade public opinion and political choices in many parts of the world.

MODE OF GOVERNANCE

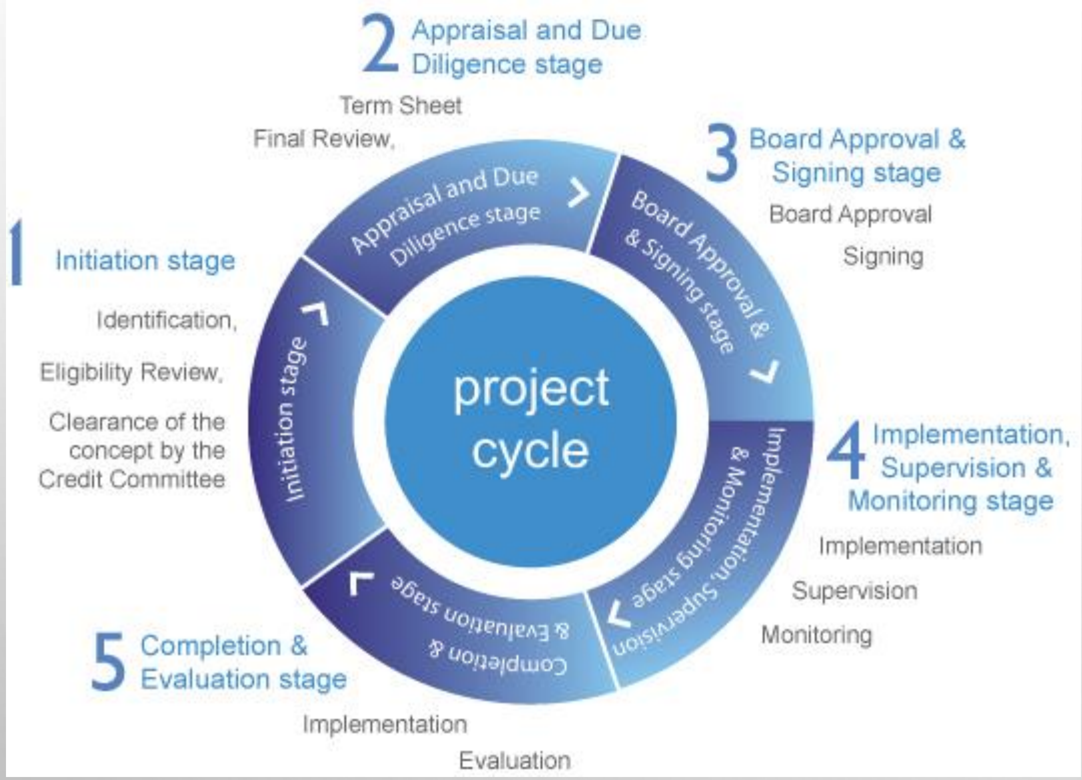


- Modes of governance are based on particular premises, logics, and power relations.
- A neoliberal governmentality is rooted in entrepreneurial values such as **competitiveness, self-interest, and decentralization**.
- It celebrates individual empowerment and the devolution of central state power to smaller localized units.
- Such a neoliberal mode of governance adopts the self-regulating free market as the model for proper government.

MODE OF GOVERNANCE

- Neoliberal modes of governance encourage the transformation of bureaucratic mentalities into entrepreneurial identities
- Government workers see themselves no longer as public servants and guardians of a qualitatively defined 'public good' ..
- but as self-interested actors responsible to the market and contributing to the monetary success of slimmed-down state 'enterprises'.
- The neoliberal mode of governance for public servants redefined citizens as 'customers' or 'clients' and encouraged administrators to cultivate an 'entrepreneurial spirit'.

MODE OF GOVERNANCE



- Neoliberals call for the employment of governmental technologies that are taken from the world of business and commerce:
  - Mandatory development of ‘strategic plans’ and ‘risk-management’ schemes oriented toward the creation of ‘surpluses’;
  - Cost–benefit analyses and other efficiency calculations;
  - The shrinking of political governance (so-called ‘best-practice governance’);
  - The setting of quantitative targets;
  - The close monitoring of outcomes;
  - The creation of highly individualized, performance-based work plans;
  - The introduction of ‘rational choice’ models that internalize and thus normalize market-oriented behavior.

A POLICY PACKAGE

- Neoliberals call for the employment of governmental technologies that are taken from the world of business and commerce:
- Neoliberalism manifests itself as a concrete set of public policies called the 'D-L-P Formula':
  (1) deregulation (of the economy);
  (2) liberalization (of trade and industry); and
  (3) privatization (of state-owned enterprises)

A POLICY PACKAGE

- Related policy measures include;
  - Massive tax cuts (especially for businesses and high-income earners);
  - Reduction of social services and welfare programmes;
  - Replacing welfare with 'workfare';
  - Use of interest rates by independent central banks to keep inflation in check (even at the risk of increasing unemployment);
  - The downsizing of government;
  - Tax havens for domestic and foreign corporations willing to invest in designated economic zones;
  - New commercial urban spaces shaped by market imperatives;
  - Anti-unionization drives in the name of enhancing productivity and 'labour flexibility';
  - Removal of controls on global financial and trade flows;
  - Regional and global integration of national economies; and
  - The creation of new political institutions, think tanks, and practices designed to reproduce the neoliberal paradigm

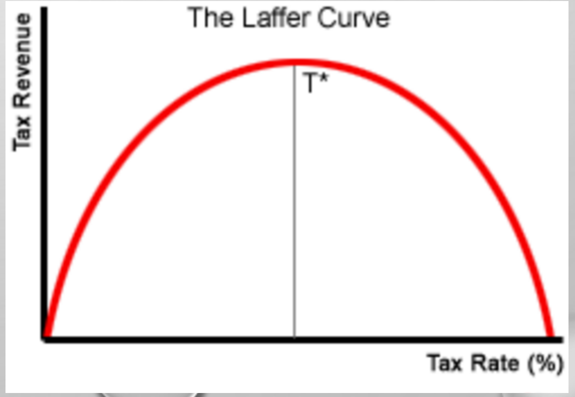
WESTERN NEOLIBERALISM

- First-wave neoliberalism in the 1980s amounted to a successful ideological crusade against Keynesian-style ‘big government’ and state ‘interference’ in the market.
- Anchored in common principles centered on releasing the entrepreneurial energies of the individual, ***Reaganomics*** and ***Thatcherism*** nonetheless represented quite unique responses to an increasingly globalized economic and political context.
- These two variations on the neoliberal theme took distinct approaches to issues such as the relative importance accorded to budget deficits and taxes.
- Both advocated a reduced role of government, but their economic initiatives depended, paradoxically, on the muscle of state-imposed neoliberal reforms on local and regional authorities.

WESTERN NEOLIBERALISM

Executive leader	Core neoliberal beliefs	Secondary beliefs	Core neoliberal policy issue	Secondary policy issue
Reagan (supply-sider)	Government is inefficient. Government predation leads to poor economic performance.	Monetary and fiscal stability is necessary for economic growth.	Restrict the extent of government predation through minimal taxation.	Create economic stability through deficit reduction and spending restraint.
Thatcher (monetarist)	Government is inefficient. Monetary and fiscal stability is necessary for economic growth.	Government predation leads to poor economic performance.	Create economic stability through deficit reduction and spending restraint.	Restrict the extent of predation through minimal taxation.

A. Reaganomics and Thatcherism: supply-side and monetarist neoliberalism



REMARKETIZED CAPITALISM

- Welfare expenditure was cut through the restriction of benefit payments, particularly the payment of unemployment benefit, by the replacement of grants with loans, as students know to their cost, and by increases in charges
- A shift from income tax to indirect taxes which, it was claimed, at least gave people greater choice, since they did not have to buy the products that carried these taxes.
- Public sector industries and services were returned to the market-place through various forms of privatization
- The sale of public companies to private individuals; They could, however, be made to behave as though they were competing in a market-place
- In 1983, for example, all district health authorities were required to introduce competitive tendering for the provision of cleaning, laundry, and catering services.
- New areas through the device of public-private partnerships

REMARKETIZED CAPITALISM

Arguments

- A free economy requires a strong state !?
- The reviving of market forces actually increased state regulation
- Significantly, inequality is now discussed in terms not of differences in wealth or income but of access.

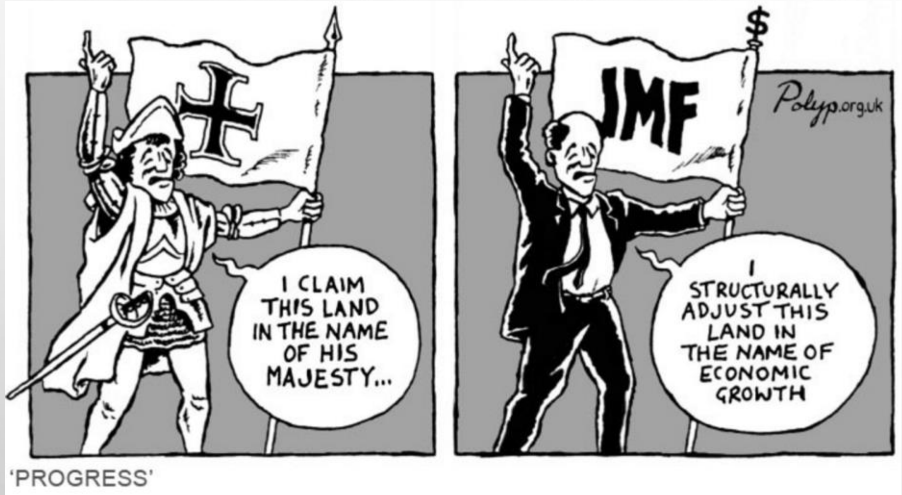
TRANSFORMATION OF CAPITALISM

- The new world of remarketized capitalism provides greater choice and more freedom for the individual but also A less secure life, intensified work pressures, and greater inequality.
- The gap has widened between those trapped in low-wage occupations who face insecure futures and those able to exploit the new opportunities to accumulate wealth.
- As managed capitalism developed, the freedom of the individual was diminished in the name of greater equality, but in a remarketized capitalism, equality and security have been sacrificed to freedom and choice.

NEOLIBERALISM

- Once this premise became widely accepted, it was the logical next step to claim that these factors remained the major impediment to successful economic development in the global South.
- A global neoliberal development agenda based primarily on so-called ‘structural adjustment programmes’ and international free-trade agreements.
- The 1991 demise of the Soviet Union and the acceleration of market-oriented reforms in communist China led to the unprecedented dominance of the neoliberal model in the 1990s.
- Powerful economic institutions like the International Monetary Fund and the World Bank imposed their neoliberal agenda on heavily indebted developing countries in return for much needed loans

WASHINGTON CONSENSUS



- The 'Washington Consensus' is often viewed as synonymous with 'neoliberalism'.
- Coined in the 1980s by the free-market economist John Williamson, the term refers to the 'lowest common denominator of policy advice' directed at mostly Latin American countries by the IMF, the World Bank, and other Washington-based international economic institutions and think tanks.
- In the 1990s, it became the global framework for 'proper' economic development.
- In exchange for much-needed loans and debt-restructuring schemes, governments in the global South were required to adhere to the Washington Consensus by following its ten-point programme.

WASHINGTON CONSENSUS

1. A guarantee of fiscal discipline, and a curb to budget deficit
2. A reduction of public expenditure, particularly in the military and public administration
3. Tax reform, aiming at the creation of a system with a broad base and with effective enforcement
4. Financial liberalization, with interest rates determined by the market
5. Competitive exchange rates, to assist export-led growth
6. Trade liberalization, coupled with the abolition of import licensing and a reduction of tariffs
7. Promotion of foreign direct investment
8. Privatization of state enterprises, leading to efficient management and improved performance
9. Deregulation of the economy
10. Protection of property rights

NEOLIBERALISM AND THE WORLD

- During the last decade, however, neoliberalism has come under a series of criticisms.
- The global economic crisis of 2008–9 is only the latest in a series of challenges to the still dominant free-market paradigm.