Neoliberalism

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Abstract

What is neoliberalism and how do we account for its policy dominance over three decades? We analyze the rise and power of neoliberalism from three different perspectives: economic, political, and cultural. We argue that cultural analysis of policy preferences and success is critical to understanding the appeal and staying power of neoliberalism.

For over three decades, neoliberalism reshaped the global political economy (Centeno & Cohen, 2012). *Neoliberalism* is an economic policy ideology or movement that stresses the necessity or desirability of transferring economic power and control from governments to private markets. Beginning in the 1970s, this perspective dominated policymaking in the West, and spread globally after the Cold War. While the 2008 crisis and ensuing Great Recession may have shaken neoliberalism's supremacy, it remains unchalleneged by serious alternatives and continues to shape post-crisis policy (Crouch, 2011).

Neoliberalism sought to dismantle or suppress extra-market forms of economic coordination (Amable, 2011). Its policies sought to reverse the economic power and influence assumed by states after the Great Depression and World War II (Ruggie, 1982). Concretely, neoliberal reformers sought to deinstitutionalize (either partly or fully) commonplace mid-twentieth century policy strategies such as redistributive taxation and deficit spending, controls on international exchange, economic regulation, public goods and service provision, and active fiscal and monetary policies (Centeno & Cohen, 2010; Gwartney*, Hall & Lawson*, 2010; Miller & Holmes, 2011).

Understanding neoliberalism's history and practical dilemmas involves paying attention to the underlying structural economic developments, the (re)distribution of political power, the ideational and discursive shifts that framed how these changing conditions were perceived and acted upon, and the balance between coercion, exchange, and conversion in explaining its global diffusion (Henisz, Zelner, & Guillén, 2005).

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THE ECONOMICS OF NEOLIBERALISM

After the Great Depression and World War II, governments grew to be substantially larger and more economically influential, as states increased social spending, public investment and enterprise ownership, and market regulation, while maintaining large peacetime militaries (Bruton, 1998; Cameron, 1978; Tanzi & Schuknecht, 2000). But the state-managed capitalism system began to face strains by the late-1960s. In 1973, the OPEC oil embargo sparked a sustained economic crisis across the Western world. What was unique about this crisis was that prices rose in tandem with an economic slowdown and a rise in unemployment. Over the 1970s, the major Western economies saw growth rates roughly halve, and unemployment rates rise by 40% to 500%, (Helliwell, 1988, p. 2). Scholars still disagree about the crisis' ultimate causes; explanations often involve some mixture of commodity prices, monetary expansion, declining returns on investment, and labor conflict (e.g., Barksky & Killian, 2001; Olson, 1982; Smith, 1992). At the time, however, policymakers increasingly adopted the view that government interference was the main culprit, and that the solution involved reforming the economy in ways that privileged markets' economic influence over that of the state. Their various views were ultimately crystallized as a set of liberalization policies called the "Washington Consensus": fiscal austerity, market-determined interest and exchange rates, free trade, inward investment deregulation, privatization, market deregulation, and a commitment to protecting private property (Williamson, 1990).

Perhaps the most significant changes occurred in finance. Over the 1980s through 2000s, the financial sector operated within a progressively deregulated environment, and grew markedly larger, more complex, more economically and politically powerful, and an increasing source of instability (Carruthers, 2011; Davis, 2009; Epstein, 2005; Foster, 2007; Krippner, 2005, 2011). During the 1980s, neoliberalism's free-wheeling international financial markets gave some indication that they could be economically destabilizing. Much as would happen two decades later, OECD governments ultimately saved financial institutions in the late-1980s with bailouts made conditional on reforms that shifted the adjustment costs of the crisis to the borrowers. In the case of developing countries, the price of being bailed out involved politically and economically difficult reforms, but no serious containment on Western lending or leverage. Any concerns about the negative side of neoliberal reforms were soon erased with the emergence of the information technology and international investment booms that started in the early 1990s. Foreign direct investment into developing and ex-socialist countries began to accelerate (Cohen & Centeno, 2006), with Western businesses anxious to gain footholds in these new economic frontiers. Trade was liberalized

substantially (Chorev, 2007), and businesses aggressively sought to internationalize their operations. US (and ultimately many Western) companies sought to offshore (via direct investment or outsourcing) the production of tangible goods, assuming a role in the international division of labor that concentrated on product design, market, consulting and intellectual property, while physical production moved to low-wage developing countries (Centeno & Cohen, 2010). Despite the boom, some observers questioned the centrality of liberal markets to the Asian "miracles" that originally justified reforms, while noting that Latin America—the world's most fervent adopter of neoliberalism—was doing poorly economically (Gore, 2000; Rodrik, 1996). Others began to argue that market liberalization was not a complete solution in and of itself, and calls to focus on the importance of *how* states govern markets grew louder (Burki & Perry, 1998; Evans, 1995; Evans & Rauch, 1998). There were several clear indications that these policies promoted inequality and hurt the poor, and that these problems hindered the larger development process (Williamson, 2003). Inequality became worse in the United States (Piketty & Saez, 2003) and elsewhere, although the rapid development of China and India made the world economy more equal on a population-weighted basis (Firebaugh, 1999).

In 2000, the West's technology market bubble burst. This downturn revealed serious manipulations of financial reporting—most notably with cases such as Enron, Worldcom, Adelphi, and Tyco—where auditors were complicit in the theft of billions of dollars. The United States began an odd and short-lived recovery around 2003. Growth was slow and median wages barely moved, while the financial sector enjoyed large profits. As with most bubbles, prevailing theory, market perception, and bond rating agencies assumed that these kinds of securities offered low risk, while the presumably "well-informed" market determined that they merited solid returns. The rush to buy these types of assets made huge amounts of capital available for home buyers, while exposing financial institutions to imperceptible, and very large, risks. Furthermore, the Federal Reserve became complicit in this bubble by pursuing a monetary policy that stimulated financial markets when downturns threatened. This "Greenspan put" (Goodhart, 2008) was taken as an implicit guarantee that governments would not let financial markets deflate.

By late 2008, panic over the solvency of financial institutions emerged, leading to a string of defaults and government-engineered bailouts. Several months after the collapse, world financial assets declined by approximately $50 trillion (Adam, 2009). Financial institutions' capital bases, which were heavily invested in derivatives, effectively evaporated and lending stopped. Governments responded with massive capital injections into banks, but spending, real investment, and lending have not surged back as of late 2012.

The US economy shed millions of jobs, and experienced a spate of bankruptcies, a slowed economy, and tight credit markets. For weaker government debtors who could not print money or devaluate their currencies—such as American states or southern EU states—avoiding default has become a problem. The Western countries have largely stagnated, and much of the world economy has suffered as a result.

The economics of neoliberalism became clearer over three decades: Increasingly deregulated and volatile debt was used to promote demand and fuel apparent prosperity. In many ways, it was a form of disguised Keynesianism with a drastically different distribution of costs and benefits: Instead of being taxed to pay for public goods, the wealthy lent governments money to finance deficits. When the nature and complexities of the underlying financial reality threatened to overwhelm the system, governments would come to the rescue and begin the cycle all over again. In the summer of 2011, negotiations over the American debt ceiling and the Euro crisis and the proposed solutions sounded remarkably similar to earlier episodes. Despite talk of the "end of capitalism as we know it" around 2008, the economic rules of the game remained essentially the same.

THE POLITICS OF NEOLIBERALISM

The birth of the neoliberal paradigm begins with a system-wide crisis of state legitimacy in the 1960s and 1970s (Drazen & Grilli, 1993; Hall, 1992). Throughout much of the developed world, political, economic, and social crises strained the social compacts that kept mid-century "mixed capitalism" politically influential. At the beginning of the crisis, most countries responded with social spending and regulatory tinkering. As Richard Nixon famously suggested, everyone was still a Keynesian. Yet, as the crisis continued, traditional mid-century policy instruments seemed unable to restore economic order (Appelby, 2010; Brenner, 2006; Eichengreen, 1996; Fourcade-Gourinchas & Babb, 2002; Frieden, 2006; Habermas, 1975; Maddison, 1991).

Neoliberalism was a way for the system to survive its own contradictions. First, it sought to restore state solvency and financial-systemic stability by bolstering and attracting the money of a burgeoning world financial market (through privatization, new inward investment, and investment market growth) and attracting hard currency by pursuing exports and assuring monetary stability (Hall, 1992). Second, the notion of "market exigencies" provided political cover for contentious policy changes. In developing countries, for example, the Washington Consensus' loan conditionalities created an occasion for countries to cut politically well-defended entitlements and

thus theoretically escape the fiscal and budgetary pressures they were facing (Blyth, 2002; Olson, 1996; Prasad, 2006).

A key element in this was the radical realignment of large parts of the voting population in the developed economies (Cowie, 2010; Jacobs & Zelizer, 2008; Sandbrook, 2011; Stein, 2010). The late 1960s through the early 1980s marked the rightward recentering of political discourse. Ronald Reagan and Margaret Thatcher's elections proved critical moments in the rise of neoliberalism (Gamble, 1988; Yergin & Stanislaw, 1998). Those who resisted neoliberalism could face capital flight and short-to-medium term economic pressures (Fourcade-Gourinchas & Babb, 2002; Sachs, 1989). With the leadership of pro-market leaders such as Mikhail Gorbachev and Deng Xiaoping eliminating any global alternative, opponents of neoliberalism found themselves with fewer geopolitical poles to which they could cling.

The disintegration of the domestic political compacts that had dominated in the post-war period presented a situation in which new policies could be advocated and new alliances forged (Hay, 2005; Katz, 2010; Pierson, 1994; Pierson & Skocpol, 2007; Quinn & Toyoda, 2007). The rise of what we might call the "charismatic right" (Berlinski, 2008; Hayward, 2010) was accompanied by the wholesale retreat of the traditional electoral left. In part a pragmatic response to a string of defeats, in part a reaction to structural changes in the global economy, and in part as a generational transfer of power, the elaboration of "third-way" Clintonism and New Labour removed any political challenge to the domination by the market centric rhetoric of the right (Driver & Martell, 2006; Giddens, 1998; Hale, 1995; Ryner, 2010).

The centrality of politics belies the contention that neoliberalism was anti-statist (Harvey, 2005; Hay, 2005; King & Sznajder, 2006; Kurtz & Brooks, 2008; Mann, 2000; Mudge, 2008; Murillo, 2002; Ohmae, 1996; Polillo & Guillén, 2005; Rudra, 2002; Wolf, 2001). Although globalization was predicted to transform government completely, it did not lead to several theorized or intuitive changes. For all of the talk about "small government," states rarely shrunk in any substantial absolute sense. Neoliberals' attack on the welfare state *was* vociferous. Neoliberalism sacrificed some public sector projects (public employment, aid to the poor or well-funded upper education), but still managed to maintain broad-based government guarantees of economic security, such as unemployment insurance, pensions, or medical insurance. Its costs were socialized in ways to make organized opposition difficult (Dreher, Jan-Egbert & Ursprung, 2007; Hanson, 2009; Storey, 2008). One clear political trend was the shifting of institutional power within the state toward the agencies managing relations with capital (central banks, finance ministries) as their policy perspectives and preferences came to dominate those of more welfare-oriented organizations. In the end, neoliberalism was

very much a state-directed project, but the interests represented by these same states changed as did the central actors defining policy.

There was a radical change in the post-war balance of power between domestic voters and global interests as well (Shefner & Férnandez-Kelly, 2011). In the United States and globally, the financial sector itself became more concentrated, with national banking markets coalescing around a smaller number of internationally competitive firms, and the focus of capital investment internationalized (Verdier, 2002). The internationalization of capital increasingly separated economic power from direct political control (Eichengreen, 2008; Hacker & Pierson, 2011; Helleiner, 1994; Shaxson, 2011; Simmons, 1999). Neoliberalism also marked a profound change in the government's understanding of how states' geopolitical interests were best pursued. In the shadow of World War II and the Cold War, global politics trumped economic orthodoxy in determining policy preferences and financial support. This strategic perspective was transformed by the end of the Cold War. The collapse of the Soviet Union in 1989 served as the capstone to a decade-long apparent victory of market mechanisms and the disappearance of feasible alternatives. Concerns about military dominance, geopolitical alliance, industrialization, national self-sufficiency, and the pacification of domestic discontent gave way to the pursuit of aggregate growth, inflation control, and public debt management (Abdelal, 2007; Baldwin, 1993; Hasenclever, Mayer & Rittberger, 1997; Keohane, Nye & Hoffmann, 1993; Waltz, 1979). As the state sought the approval of a global financial market able to inject desperately needed funds, measures of investor confidence would replace political polls as bellwethers of a government's success (Deeg & O'Sullivan, 2009). In this way, neoliberalism did not so much mean the end of the state, but rather a significant change in the meaning of citizenship within states (Mitchell, 2003; Ong, 2006).

The political world of neoliberalism may be best understood as based on increasingly asymmetrical power. The central question within the political analysis of neoliberalism is the extent to which it occurred as a response to asymmetries and economic changes or due to the direct exercise of class and global power. Margaret Thatcher defended her policies with her famous TINA: "there is no alternative." Was this true or was it simply convenient for some that none arose?

Some explanations of the rise of neoliberalism focus on the structural shifts in the global economy and treated resulting policies as an inevitable and sensible response to these (Boix, 2010). Yet, increasingly, the argument has been made that the financial turn in global political economy was not the inevitable response to nameless forces beyond political control, but very much a product of direct political influence, not just by the amorphous capital markets but by the direct collusion and influence of a narrow group

of individuals whose personal or institutional control of vast amounts of money allowed them to buy their respective polities (Duménil & Lévy, 2011; Hacker & Pierson, 2011; Johnson & Kwak, 2011; Morgenson & Rosner, 2011). The diffusion of neoliberalism in the developing and ex-socialist worlds was tied to the imposition of policy preferences in exchange for foreign aid or emergency financing from the United States or international financial institutions (such as the IMF or World Bank) (Bromley & Bush, 1994; Edwards, 1995).

THE CULTURE OF NEOLIBERALISM

The assumptions underlying our understanding of the political economy are as fundamental a force behind the rise of neoliberalism as political or economic factors (Berman, 1998, 2002; Campbell, 1998; Mandelbaum, 2002; Murillo, 2002; Rodgers, 2011; Simmons *et al*., 2008). Thus, for example, interstatal competition for capital may not have been as important as the perception that such competitive strategies were expected and necessary of "responsible" global players (Hay, 2006; Hay & Rosamond, 2002). No matter one's views on its costs and benefits, we need to understand neoliberalism as the triumph of an ideology (Mirowski & Plehwe, 2009) or in Bourdieu's less felicitous terms (1999), "the tyranny of the market."

The market's first great victory was in the academy. The principles underlying neoliberalism first established their monopoly in the economics profession and from there engaged in an imperial conquest of other fields (or their delegitimation) (McNamara, 2009; Oatley, 2011). What is particularly fascinating about the relationship between academic economics and the rise of neoliberalism is that even as the level of abstraction and formalism of the former increased, so did its influence in shaping policy (Reay, 2007).

What linked this epistemic community (Haas, 1992) was the normalization of markets, or their portrayal of them as inescapable natural laws of social life—immutable and inescapable market forces—that would ultimately undo any effort to subvert them. The equilibrium outcomes that would inhere in pure markets were understood as analogous to gravitational laws in physics, in the sense that they could be violated temporarily with the expenditure of great resources, but never permanently. This led to the nominal depoliticization of political economy. Despite considerable evidence to the contrary, economic policy saw itself as divorced from interests or power and merely responding to the demands of the unconscious yet omniscient market (Hirschman, 1991; Palma, 2009). The impact of these academic musings was considerable (MacKenzie & Millo, 2003; Peck, 2010). By the mid-1980s, discursive processes led to the practically political, or at least policy, monopoly by what would have been called the conservative

right only a decade before, but was now seen in much softer light as the reasonable, pragmatic center.

In retrospect and given the crisis of 2008, the most important legacy of this policy orientation was a broad and deep deregulation and privatization of economic life (Megginson & Netter, 2001). Neoliberal pundits consistently and effectively used what Albert Hirschman (1991) identified as the "rhetoric of reaction": any policy shift away from market logic could only resort in futility, perverse outcomes, and systemic jeopardy.[1]

The skepticism about public regulation and the increasing faith in market mechanisms had significant political effects over and above specific policy preferences. Basic precepts and assumptions of human behavior empowered elite political and economic actors to the detriment of middling and poorer classes' propensity to act collectively. For example, recasting labor relations as market transactions between two types of individual entrepreneurs—the proprietor-entrepreneur and the laborer-entrepreneur—expunged a range of basic notions that guided mid-century labor relations from our collective consciousness: the exigencies of fairness in bargaining and compensation, the possibility that workers have inalienable protections from their employers, or the potential benefit of collective action. Similarly, the cult of individualism undermined efforts to organize through the creation of identity communities, with the significant exception of the newly energized nationalism.

At the household level, the triumph of the market was heralded by an explosion of consumption perhaps unique in human history (Jacobs, 2011). A veritable culture of spending (supported by debt) developed in practically every region of the world and the ubiquity of goods and services became arguably the most powerful argument for the sanctity of the market. This came with a significant increase in the amount of leisure time available and (in many jobs) a decline in the dangers and exhaustion associated with them (Schor, 1999). Simply put, people felt they were living much better thanks to the market (Baker, 2005; Emmott, 2003; Inglehart, Foa, Peterson & Welzel, 2008) and many actually were (and not just in terms of electronics per capita but also as measured by indicators such as Human Development Index). The issue is not to question the 1990s boom, but to challenge the assumption that market fundamentalism was responsible for it.

CONCLUSIONS

Over and above substantive historical lessons, we believe this review suggests two more general insights. First, it is imperative to recognize the

1. With thanks to Mark Blyth and his blog http://triplecrisis.com/the-problem-of-intellectual-capture/.

cultural or ideational element to economic governance. Second, it is equally important to recognize that economic policies do not involve exclusively the search for universal principles, but political choices about who wins and who loses. The combination of apparent inevitability with the notion of non-zero-sum outcomes was extremely powerful. For decades we lived in a world where the dictates of global finance appeared to enjoy the immutability of gravitational laws and where the sacrifice of social interests on the altar of "investor confidence" appeared inevitable. But, we should learn that such an approach involved a set of political choices and the relative appraisal of a set of interests and principles. Any new policy paradigm must not make the same mistakes.

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