

Beyond Neoliberalism: How to Think About Rebuilding the Capacity of the Democratic State

Tuesday 2nd May 2023 17:30-19:00 (BST)

Chaired and convened by

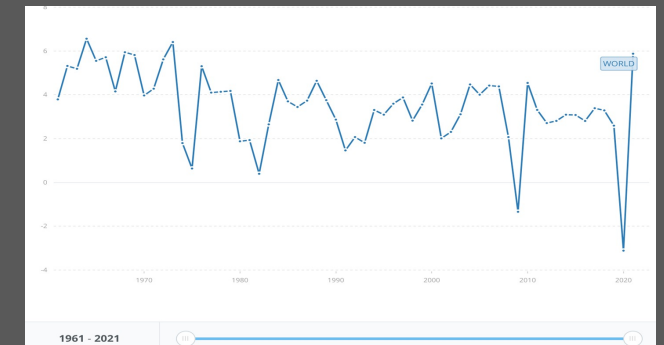
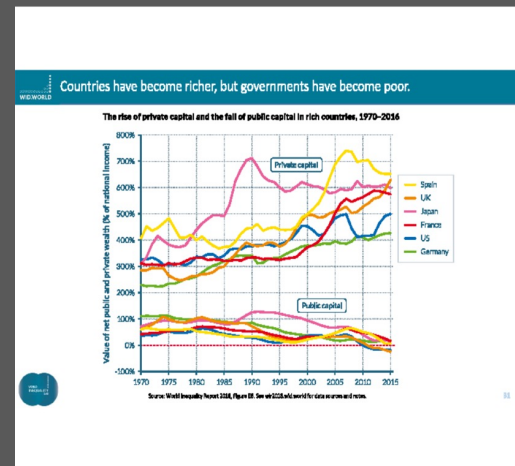
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Recap of First Lecture on Neoliberalism

- Neoliberalism is a global system that emerged out of the economic and political crisis of the 1970's, which harkened back to the classical liberal order of the 19th century.
- Its ideology was market fundamentalism, but its reality was a political economy of power.
- Neoliberalism led to radical increases in inequality within societies and a simultaneous weakening of the democratic state— both in terms of resources and of political legitimacy and institutional confidence.
- But in some countries— China, Saudi Arabia— the neoliberal order led to a strengthening of the state.



The Crisis of Neoliberalism— Part 1

- The neoliberal order which seemed triumphant in the late '90's was actually entering into a profound and continuing crisis.
- The first stage of the crisis was intellectual and economic— events which revealed key neoliberal doctrines to be false.
- The second stage of the crisis was political— the collapse of a set of political relationships in the neoliberal heartland and globally that underpinned neoliberal hegemony— resulting in the erosion of the political foundations of the idea that **THERE IS NO ALTERNATIVE**



Enron and the End of the Efficient Capital Markets Hypothesis

- The single most important idea within the ideology of market fundamentalism in terms of underpinning the political economy of neoliberalism was THE EFFICIENT CAPITAL MARKETS HYPOTHESIS.
- This was the idea that capital markets rationally incorporate all available information— so that capital markets are the most efficient mechanism for allocating investment capital.
- Enron was one of the largest corporations in the United States in 2001— and its business model was promoting and profiting from deregulation of utilities.
- Enron was also McKinsey's largest customer.
- But it turned out Enron was hiding the fact that it wasn't really profitable, and was instead generating large debts.
- But it wasn't REALLY hiding this information very well— it was actually in Enron's financial statements if you looked closely—which Rebecca Smith at the WSJ did.
- The capital markets' utter failure to see this despite Enron being one of the most scrutinized companies in the world destroyed the Efficient Capital Markets Hypothesis.



The 2008 Financial Crisis, Financialization and the State

- A second key tenet of market fundamentalism was that the state should not “interfere with” or “shape” markets, and certainly should not “pick winners and losers”
- In the 2008 financial crisis, governments across the developed world intervened to rescue private financial institutions, their creditors and shareholders, and their executives-- in many cases at the expense of their citizens.
- The public was essentially forced to recapitalize failed banks through either direct tax expenditures and subsequent austerity or “extend and pretend” policies or both.
- Economically this resulted in prolonged problems in commercial credit markets, housing markets and labor markets.
- Politically these events fed both left wing and right wing critiques of neoliberalism as a front for “crony capitalism.”

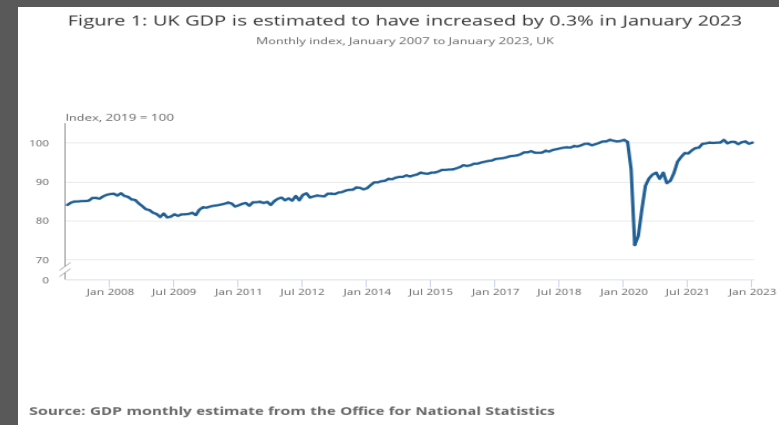
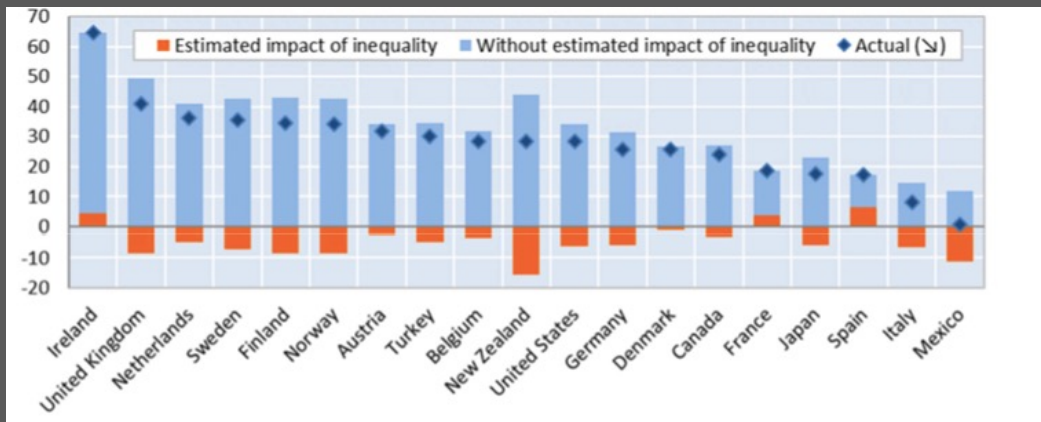
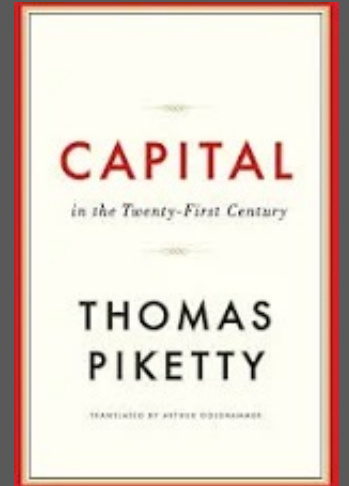
“Despite the assurances of Secretary Paulson that the initial purchases of stock and warrants of the banks were made at full value, our analysis of the numbers showed that Treasury paid substantially more for these assets than they were worth. In fact, for every \$100 spent by Treasury, it received assets then valued, on average, at only \$66.”
Elizabeth Warren



“I made a mistake in presuming that the self-interest of organisations, specifically banks and others, was such that they were best capable of protecting their own shareholders,” Alan Greenspan

Inequality, Demand and Growth— or Kuznets, Piketty, Krugman and Stiglitz

- A key tenet of market fundamentalism was that inequality was a spur to growth— that entrepreneurs had to be able to realize excess profits in order to incentivize both investment and managerial effort.
- The financial crisis revealed that growth in the neoliberal era had to a significant degree been propped up by policies that substituted consumer credit for wages in an unsustainable way.
- This led to a debate about the relationship between inequality and growth.
- By the late 2010's even skeptics of the inverse relationship between inequality and growth had conceded inequality was an obstacle to economic growth in developed countries.



The Long Failure of Market Solutions to the Climate Crisis

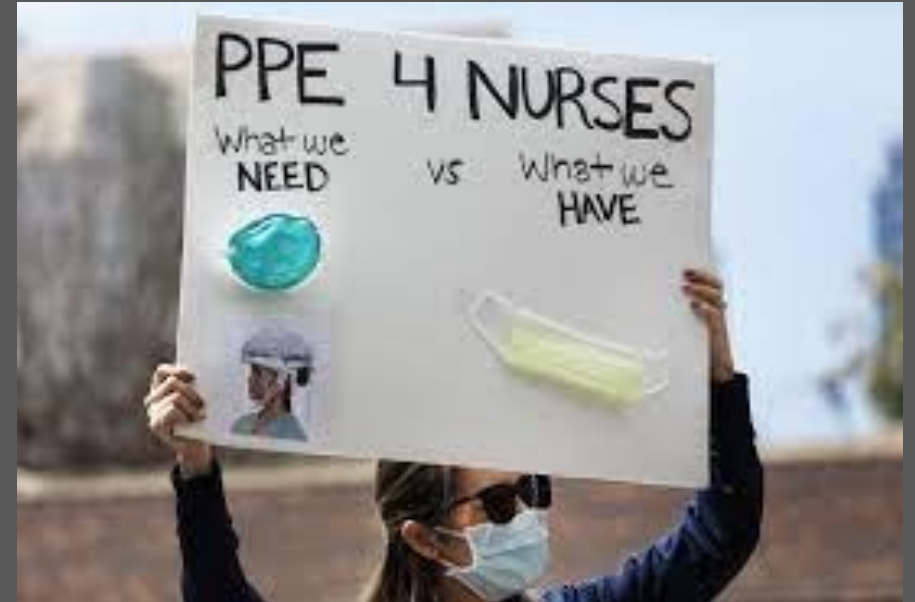
- The climate crisis was first identified in a serious way in public discourse in 1988, as neoliberalism was gaining steam.
- Through the 1990's the predominant policy response to climate change was proposals for "market based solutions," and in particular either "cap and trade" policies or carbon taxes.
- There were also a large number of attempts to harness either global corporations or global investors as drivers of climate policy.
- By the early 2010's it was clear that these policy approaches were not gaining public support and therefore were unable to effectively combat climate change.
- It was furthermore extremely clear that without state intervention, capital markets and energy markets as they had evolved in the neoliberal era were incapable of effectively reflecting the threat climate change posed to human civilization.

2011-2021 average vs 1956-1976 baseline (°C)



COVID, Globalization and the State

- The final blow conceptually to market fundamentalism and politically to the neoliberal order was the way that COVID interacted with the neoliberal global order.
- A key tenet of market fundamentalism was that, as neoliberal publicist Tom Friedman put it, “the world was flat” – that it didn’t matter where economic activity occurred or industrial production was concentrated – all that counted was profitability and “efficiency.”
- When COVID spread worldwide – it turned out to really matter who had industrial capacity – to make masks, rubber gloves, ventilators, and ultimately vaccines.
- And then it turned out to really matter WHERE supply chains went as China’s zero-COVID policy disrupted industrial production around the world.

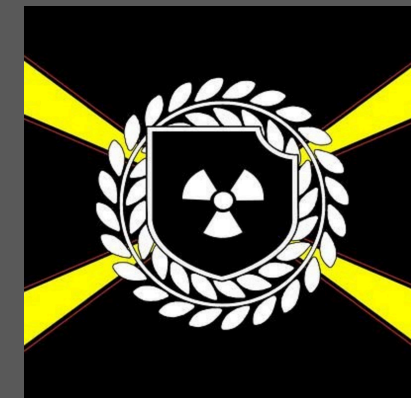


The Political Crisis of Neoliberalism

- After the financial crisis, challenges arose to the neoliberal order on both the political left and right across the developed world.
- On the right globally politicians of the authoritarian right gained in strength and visibility by attacking both neoliberal economic policies and the liberal social policies they had become associated with in the 1990's.
- On the left the aftermath of the financial crisis saw the rise of explicitly anti-neoliberal politicians like Elizabeth Warren, Bernie Sanders, Melanchon and Corbin, and the eclipse of standard bearers of left neoliberalism like Gerhard Schroeder, Hillary Clinton, and Tony Blair.

How Neoliberalism Fed the Resurgence of the Authoritarian Right

- The hegemony of neoliberal politics in the developed world between 1989 and 2008 meant that a number of key economic policies were not up for debate— trade policy, rising inequality, public investment and industrial strategy (or the lack thereof).
- In that vacuum authoritarian politicians gained support and emerged from the shadows by linking explicit racism and anti-democratic politics to critiques of neo-liberal economic policies that were growing increasingly unpopular.
- By the early 2020's an authoritarian global coalition had emerged campaigning on similar themes and governing in similar styles— Trump, Putin, Xi, Mohdi, Orban, Bolsonaro, Le Pen, Meloni, Netanyahu, MBS, Duterte, Bukele.
- In Russia and China, pre-existing authoritarian regimes challenged the neoliberal order— looking to place their authoritarian regimes at the center of the global order rather than at the periphery.
- An important common theme linking most of the new authoritarians is opposition to action on climate change— opposition making itself felt in the UN process as well as in their domestic politics.



Donald Trump, Boris Johnson and the End of Neoliberal Hegemony

- Both Donald Trump and Boris Johnson broke with key neoliberal ideas that had been dominant in their respective political parties since the 1980's.
- Trump famously attacked “free” trade and immigration, speaking in openly racist ways about immigrants from developing countries.
- Boris Johnson led the push for a radical form of Brexit, and supported an increasingly interventionist state, initially in the form of Levelling Up, and then in the context of COVID.
- But on core issues affecting the distribution of economic power—taxes and financial regulation, both Trump and Johnson remained devotees of neoliberal policies.
- Like fascism and National Socialism in the 20th century, post neoliberal authoritarianism seeks to build political coalitions across class lines to protect and expand neoliberal accumulations of wealth and power.



The North American Free Trade Agreement— A Case Study in the Crisis of Neoliberalism

- The North American Free Trade Agreement was first negotiated by the George H.W. Bush administration in the early 1990's, and then championed by the Clinton Administration.
- NAFTA economically integrated the US, Mexico and Canada, but without meaningful social integration.
- Labor and environmental groups throughout North America opposed it.
- Donald Trump made it the centerpiece of his Presidential campaign, and in the end Hillary Clinton chose to defend it.
- Trade economists ultimately concluded NAFTA lowered wages in U.S. industrial regions
- The states most significantly effected by deindustrialization—Michigan, Wisconsin and Pennsylvania, gave Trump his electoral college victory in 2016.
- Donald Trump, Nancy Pelosi, Trudeau and Lopez Obrador, with the involvement of the US and Mexican labor movements, negotiated a bipartisan rewrite of NAFTA with real labor and environmental standards in 2019.



‘We ate their lunch’: How Pelosi got to ‘yes’ on Trump’s trade deal

After tough fights, the speaker cut a deal that unions, the president and Democrats all like.

Zombie Neoliberalism and The Challenge Facing the Democratic State

- While neoliberalism has failed both intellectually and politically, it remains a powerful political force among elites around the world, in universities, think tanks, and civil services.
- It is tempting for politicians and activists devoted to democracy or to issues like climate change to embrace market fundamentalist ideas or rhetoric in an attempt to show themselves to be political moderates.
- But this type of political maneuvering instead creates openings for authoritarians, who can point to neoliberal failings around crony capitalism, deindustrialization, job loss, falling wages and economic inequality.
- Fighting authoritarianism effectively requires challenging the plutocracy neoliberalism built and supporting the kinds of policy initiatives that only a strong entrepreneurial state can deliver on.
- Nowhere is this more true than in climate change— and this is why the fight against climate change requires stronger trade unions and public investment.



Neoliberalism and Authoritarianism

- In my first lecture, I discussed the paradox of neoliberalism arising out of authoritarian governments and political practices.
- In its heyday, neoliberalism opened the door to a resurgence of authoritarianism by disconnecting liberal democracy from values of social solidarity and economic justice—and leaving the political response to economic injustice to authoritarians
- In its decline, as a zombie ideology, market fundamentalism prevents democratic societies from effectively resisting authoritarianism.
- In the United States, the conflict between Florida governor Ron DeSantis and the Disney Corporation over who should control the government of the area around Disney World illustrates the nightmare scenario—a world where the only choices are plutocracy or dictatorship.



The Post Neoliberal Future--Democracy and the Entrepreneurial State

- IIPP Director Mariana Mazzucato recently said that **“the global transition to a net zero economy simply will not happen at the pace that is needed unless states embrace their proper role as market maker and investor in public goods.”**
- But what are the prerequisites for doing so? Democratic states must:
 - throw off the zombie ideology of market fundamentalism
 - rediscover democracies’ proper moral and social content—humanistic solidarity.
 - Pursue policies that build the power and voice of citizens and diminish the power of oligarchs and plutocrats.
- This brings us back to where neoliberalism began— with trade unions and worker power.



The Choice We Face as a Global Civilization

Authoritarianism, Plutocracy and Runaway Climate Change

vs.

The Democratic, Solidaristic Entrepreneurial State

“The fragility of world systems in the face of the pandemic has demonstrated that not everything can be resolved by market freedom. It has also shown that, in addition to recovering a sound political life that is not subject to the dictates of finance, ‘we must put human dignity back at the center and on that pillar build the alternative social structures we need’”

- Pope Francis, Fratelli Tutti

“Worker power is essential to building our economy back better than before — it’s just that basic — to counter corporate power, to grow the economy from the bottom up and the middle out. I’m so tired of trickle-down.”

- U.S. President Joe Biden, September 8, 2021

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