

Understanding Neoliberalism as a System of Power

Tuesday 25th April 2023 17:30-19:00 (BST)

Chaired and convened by

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Labour Markets and Innovation





Institute for
Innovation and
Public Purpose

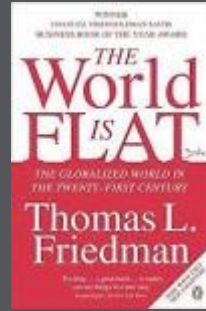
Neoliberalism as a Global Order: Private Power and Public Weakness

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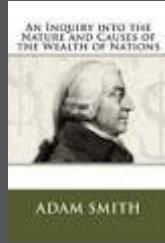
Neoliberalism as a Global System



- At the Institute for Innovation and Public Purpose, we think about how in Mariana Mazzucato's words to "radically reform and rearm 'The Entrepreneurial State' to take on the world's wickedest problems".
- But as our students go out into a world where neoliberalism has taken hold, they will encounter passivity within government itself.
- Neoliberalism both hollowed out key government capacities (but not all as we shall see), and sapped government's self confidence
- The key thesis of this lecture is that neoliberalism is a global system and like its predecessor classical liberalism— also a Janus faced one— that depending on who you were and where you were neoliberalism showed two faces— freedom for some, force for others.
- In this lecture we will look at the origin and nature of neoliberalism as a global system— and next week we will look at its unravelling and how to think about a post-neoliberal future.



Understanding the Term - Classical Liberalism and Neoliberalism



- Neoliberalism is a confusing term for many people, particularly North Americans, where the term liberalism has come to be associated with the promotion of mixed economies.
- But neoliberalism is derived from an earlier meaning of the term “liberal”— the 19th century meaning
- Key concepts- of 19th century liberalism--Open trade among nations, belief in the perfectability of markets, and opposition to government regulation of labor, product and capital markets.
- Classical liberalism became the dominant political economy in the world in the course of the 19th century, but collapsed intellectually and politically during the Great Depression and the Second World War.
- The era of classical liberal policy hegemony was also the era of European imperial expansion—together they formed one global political economy-- linking the Stock Exchange and the Gunboat.

Neoliberalism as a Global System

- Neoliberalism--the resurgence of the core ideas of classical liberalism in the decades after 1980, became the best known term describing the globalized political economy in the 1990's
- Market fundamentalism is the ideology, neoliberalism is the system.
- Some key sources--Gary Gerstle's book *The Rise and Fall of the Neoliberal Order*, Joe Stiglitz's recent critiques of the economic theories underlying neoliberalism and Financial Times' columnist Rana Foroohar's writings focused on the relationship between neoliberalism and financialization.
- But too much attention has been paid to what neoliberals SAID they were doing and far too little to what they ACTUALLY WERE DOING.
- Neoliberalism--open and closed societies working together to create a single global political economy-- AND
- Neoliberalism's outcome-- the weakening of public power and the suborning of public power to private power.

Neoliberalism's Origins – Chile

- In 1970, Keynesian economics and social democratic politics were near hegemonic outside of the Communist world. Even right wing governments and US backed military dictatorships like those in Brazil and Argentina pursued authoritarian versions of these policies.
- However for decades, right wing economic intellectuals– Friedrich Hayek, William F. Buckley, Milton Friedman, Ayn Rand-- with the support of wealthy families in the US and the UK had been trying to create a political movement to fundamentally undo the social democratic consensus.
- A CIA backed military coup in Chile in the context of the growing global crisis of Keynesian economics gave the economic right wingers an opening– a military government wielding absolute power willing to try to undo social democratic structures rather than coopt them.

Chile and the Political Paradox of Market Fundamentalism (or Libertarianism)

- Market fundamentalism has traditionally gone hand in hand with a view of private property as a natural right.
- Market fundamentalist policies as a historic matter typically result in rising economic inequality, broad economic insecurity, and governments unable to effectively manage economic cycles.
- In a democracy, public opinion will in response demand policies that impinge on market fundamentalism and private property rights.
- 1980. Market fundamentalists, faced with an attack on their perceived natural rights, will feel entitled to have the state resort to violence and authoritarianism.
- This is even more likely in societies with deep historic class, race or caste divisions.
- These dynamics are fundamental to neoliberalism, and have repeated themselves over and over again in different forms since

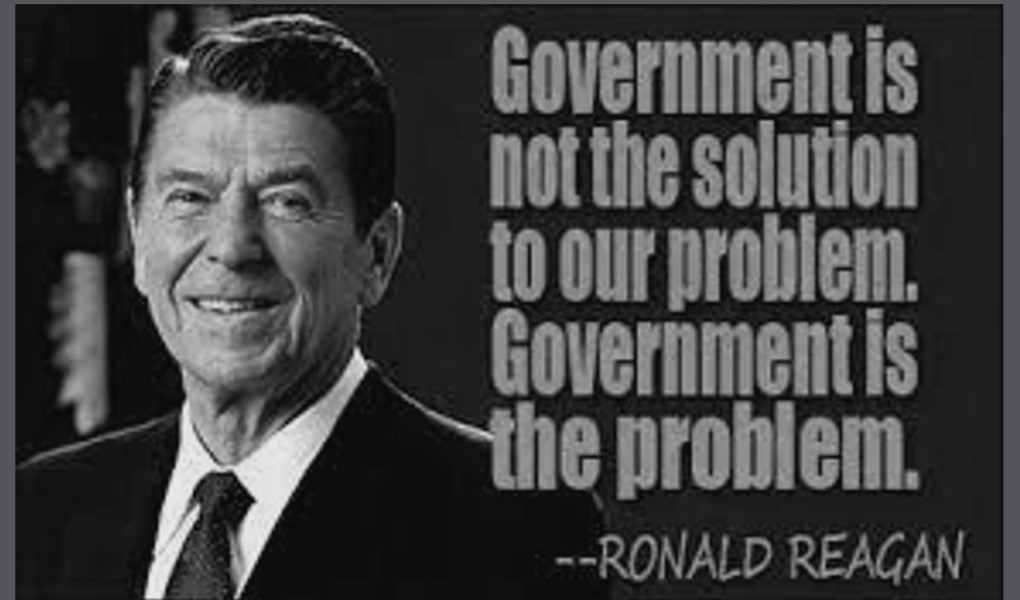
Neoliberalism's Opening Act-- the Suppression of Labor

- Throughout the world, the rise of democracy based on universal suffrage was associated with the rise of trade unions, and trade unions were the political power behind rise of mixed economies in the post World War II years.
- The first move in the rise of neoliberal governments in the 1970's and 1980's was the use of state power to weaken or destroy trade union power— labor law, monetary policy, and ultimately, force.
- Key moments— the US Air Traffic Controllers Strike, the Newscorp Strike in London, the 1984 Miners Strike.



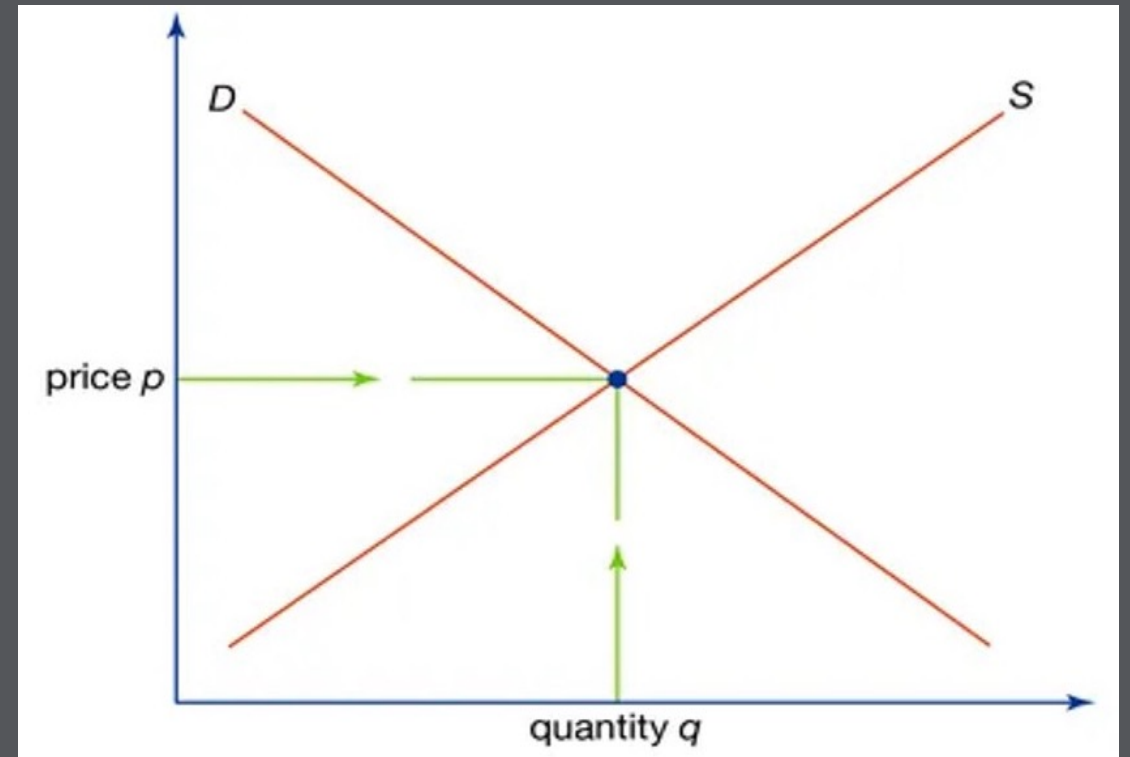
The Core Ideas of Neoliberalism—the Attack on the State as a Shaper of Markets—

- In the 1980's, in the United States and the United Kingdom, Reagan and Thatcher set the policy tone that would define neoliberalism for decades to come— policies that were designed to weaken the state as a market shaping institution and a counterbalance to private power.
- Reagan— “The nine most terrifying words in the English language are, ‘I’m from the government and I’m here to help,’
- Thatcher, “there is no such thing as society— there are individual men and women and there are families.”



The Two Intellectual Claims of Market Fundamentalism

- The normative claim is that neo-liberalism is a political economy of freedom-- where power does not exist.
- The empirical claim is that market fundamentalism is the best we can do from an efficiency perspective (the TINA claim to quote Margaret Thatcher).
- These claims undercut the key idea of the entrepreneurial state-- that the state is a source of creativity and innovation, and that markets are shaped by states.
- The hegemony of market fundamentalism in the neoliberal era, not just its adoption by particular governments, but by entire state apparatuses (see Gerstle on US in this regard) destroys the self-confidence and sense of mission of states and their bureaucracies (see Rainer's new book on bureaucracy).
- But the intellectual claims of market fundamentalism as an ideology were not the reality of neoliberalism as a system.



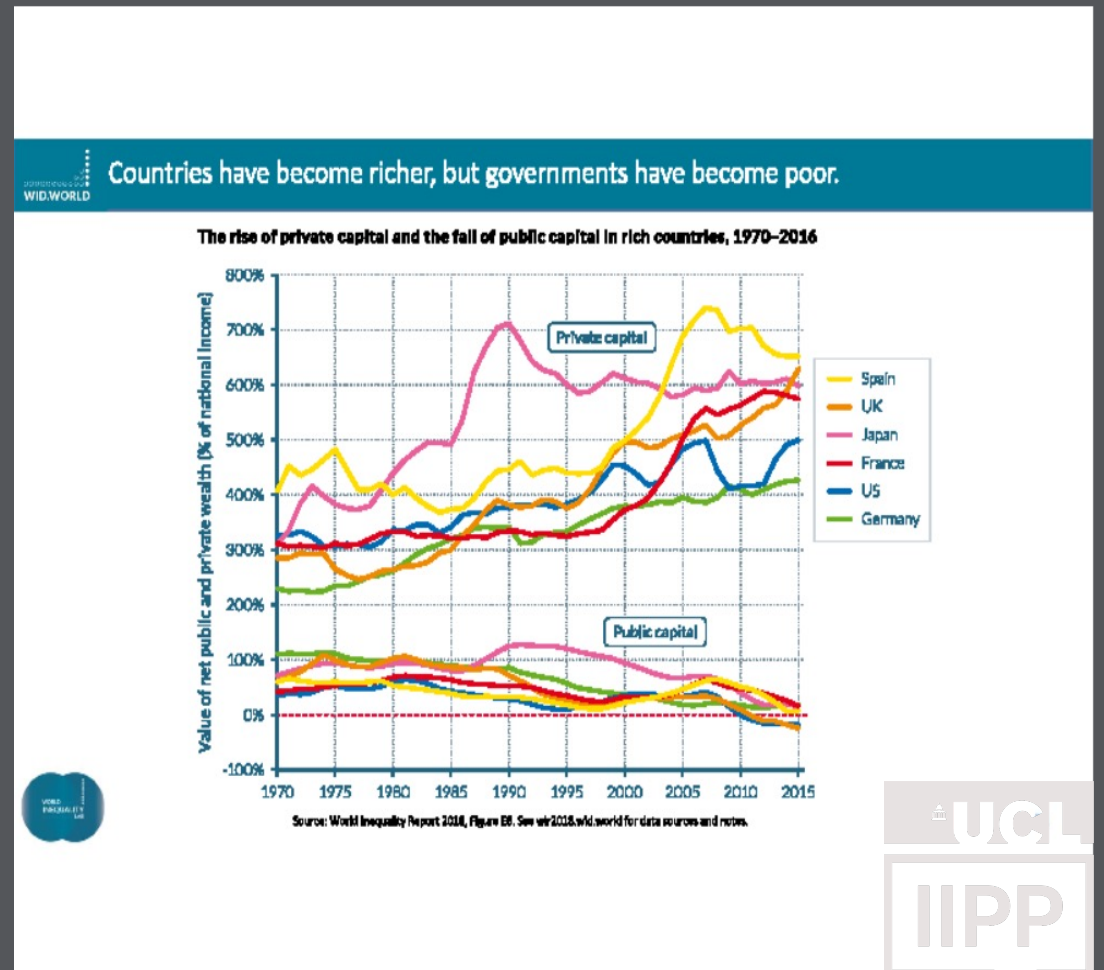
The Neoliberal Policy Agenda– Freedom from Public Power, Freedom FOR Private Power

- The neoliberal policy agenda was marketed as freedom from the state. But its consequence was the growth of private power– over markets, over workers, and ultimately over the state itself.
- Beyond the attack on labor, core neoliberal policies included—
 - Cutting taxes, particularly on corporations and the wealthy
 - Dismantling anti-trust enforcement
 - Dismantling financial regulation and supporting finance capital asserting more power vis a vis operating companies.
 - Dismantling regulation of the media (ending the “Fairness Doctrine”)
 - Dismantling environmental regulation (taking the solar panels of the White House roof).



The Political Economy Consequences of Neoliberalism at the National Level

- By the end of the 1980's economic data showed clearly that the world's developed countries were entering a new political economy regime.
- The characteristics of that regime—
 - Public sector shrinkage as percentage of GDP
 - Lower corporate and marginal individual tax rates and collections
 - Declining union density
 - Wage stagnation
 - Shift from labor income to capital income
 - Privatization of public assets
 - Greater concentration of both financial institutions and business in general
 - Rising inequality of incomes and even more so of wealth



The Rise of Neoliberalism as a Global System

- The rise of governments in the English speaking world in the 1980's that embraced market fundamentalism was not initially clearly connected to a new kind of global political economy.
- The Reagan and Thatcher governments' trade and foreign policies looked backward toward the Cold War and traditional business oriented protectionism more than they did forward to the globalism of the 1990's (Plaza Accords, Falklands War, hostility to the UN)
- The fall of the Soviet Union and ABOVE ALL the failure of the Tien An Men Square uprising set the stage for the heyday of the neoliberal global order.

Key Elements of Neoliberalism as a Global System—the 1990's

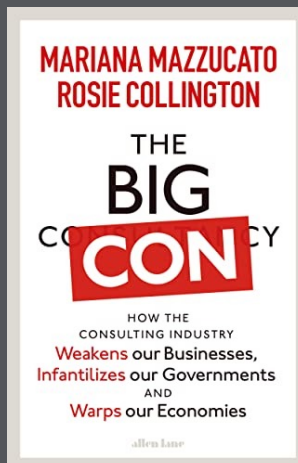
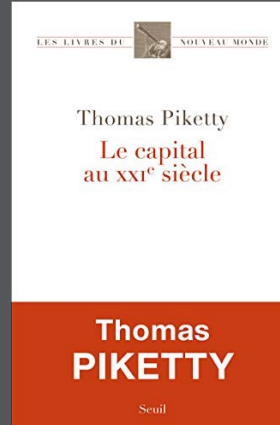
- Development of truly global systems of natural resource extraction, production and finance, integrating developed world democracies and emerging market states with varying degrees of authoritarian governments— China, Mexico, Russia, Nigeria, Saudi Arabia
- The rise of tax havens that create a hidden globally integrated tax system— UK, Ireland, Delaware
- Economic integration through trade agreements without regulatory integration (WTO, NAFTA, EU partially)
- Restructuring of international institutions to be enforcers of private property rights and investor interests against governments— GATT/WTO, IMF, World Bank, OECD.
- Unleashing of currency markets and central bank coordination to suppress wages and discourage public investment (the opposite of Bretton Woods).

The Paradoxes of the Global Neoliberal Order

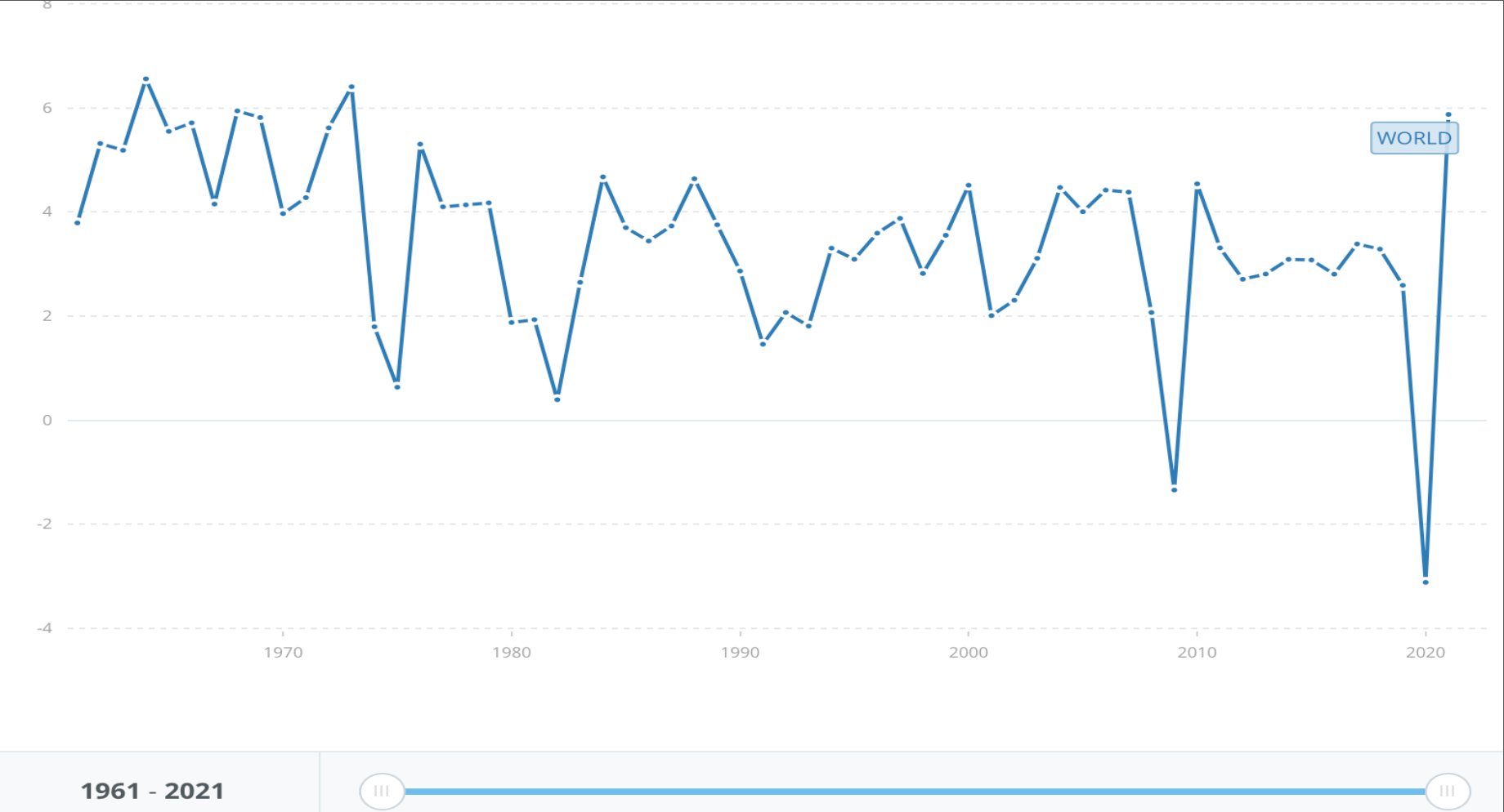
- In the 1990's in both domestic and international politics, market fundamentalist ideas that were initially associated with right wing governments gained ascendancy in nominally left wing governments, and became associated with liberal social thought. Clinton, Blair, Schroeder, and transnational institutions like the EU, the OECD and the World Economic Forum.
- Longstanding ideas in international relations dating back to the early 19th century took on new life as advocates of neoliberalism claimed that unregulated trade, the rule of law, and open borders were inseparable and together produced peace and harmony.
- But the reality was something completely different. Key national actors in the neoliberal global economy did not play by those rules at all.
- And in fact the global system of neoliberalism REQUIRED they not play by those rules.
- This meant that in the neoliberal system some states' capacities grew (Saudi Arabia, China) while others shrank.
- It was no accident that when China in the 2010's contemplated creating real labor laws, the most vocal objections came from the U.S. Chamber of Commerce in China.

Where the Neoliberal Order Led Us by 2000

- A FEEDBACK LOOP— GROWING INEQUALITY AND WEAKENING STATES AND INSTITUTIONS OF COUNTERVAILING POWER LEAD TO NOMINALLY DEMOCRATIC POLITICAL SYSTEMS TAKING ON CHARACTERISTICS OF PLUTOCRACIES—
- Neoliberal states transfer key capital allocation mechanisms around the provision of public goods and household economic security from the state to private firms and capital markets (Infrastructure, Housing, Education, Retirement Security, Health Care)
- In many of the world's leading economies, the state's political autonomy, self confidence and technical capacity for effective market shaping is weakened past the point of effectiveness by privatization, outsourcing (see The Big Con), loss of revenue, and mission constraints.



The Complex Story of Economic Growth in the Neo-Liberal Era



The Crisis of Neoliberalism– Preview of the Second Lecture

- In the first decade of the 21st century, the consequences of the neoliberal global system were coming into focus through a series of escalating and interrelated crises.
- Financial Crises
- The Climate Crisis
- Inequality and the Crisis of global demand
- Crisis of democracy and the rise of authoritarianism
- COVID
- These crisis required and require effective entrepreneurial states.
- These crises have brought an end to neoliberal hegemony, and left in its place a world of rising conflict over what sort of political economy will take its place, with the stakes nothing less than the fate of our global civilization.

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