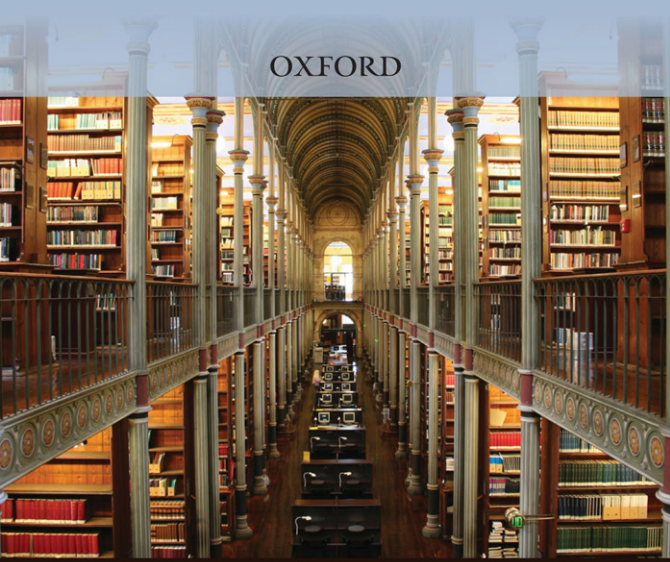


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Neoliberalism

A Very Short Introduction

Manfred B. Steger
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Neoliberalism: A Very Short Introduction

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Preface

The 21st-century world is a fundamentally interdependent place. Globalization has expanded, intensified, and accelerated social relations across world-time and world-space. The digital revolution has served as a catalyst for the creation of sprawling information and communication networks that enmesh individuals, states, and businesses alike. Transnational terrorist cells capable of acting anywhere have targeted symbols of secular power and prompted Western political leaders to declare a 'global war on terror'. Global climate change and global pandemics have become a frightening reality, forcing countries to work out a common strategy aimed at preventing a catastrophe of planetary proportions. The bursting of the US housing bubble has triggered a global financial crisis that has wiped out trillions of dollars of assets worldwide and pushed the international community to the brink of yet another Great Depression. Triumphalist voices who once saw the collapse of Soviet communism as the 'end of history' and the beginning of the unchallenged rule of American-style free-market capitalism have been silenced as the new century has remained an ideological battlefield where all kinds of competing political ideologies vie for the hearts and minds of a global audience.

'Neoliberalism' is one of these new 'isms'. The term was first coined in post-World War I Germany by a small circle of economists and legal scholars affiliated with the 'Freiburg School' to refer to their

moderate programme of reviving classical liberalism. In the 1970s, a group of Latin American economists adopted *neoliberalismo* for their pro-market model. By early 1990s, however, left-leaning critics of market reform in the global South had imbued 'neoliberalism' with pejorative meanings associated with the 'Washington Consensus' – a set of economic institutions and policies alleged to have been designed by the United States to globalize American capitalism and its associated cultural system. Other critics dismissed 'neoliberalism' as an opaque catchphrase invented by radical academics or reactionary economic nationalists for the purpose of downgrading the intellectual achievements of neoclassical economists such as Nobel-prize winners Milton Friedman and Friedrich von Hayek. Still others saw it as a postmodern version of quaint 18th-century *laissez-faire* talk glorifying individual self-interest, economic efficiency, and unbridled competition. In spite of these criticisms, however, neoliberalism has stuck in the public mind. Today, it appears almost daily in the headlines of the world's major newspapers.

Over the last quarter century, 'neoliberalism' has been associated with such different political figures as Ronald Reagan, Margaret Thatcher, Bill Clinton, Tony Blair, Augusto Pinochet, Boris Yeltsin, Jiang Zemin, Manmohan Singh, Junichiro Koizumi, John Howard, and George W. Bush. But not one of these political leaders has ever publicly embraced this ambiguous label – although they all share some affinity for 'neoliberal' policies aimed at deregulating national economies, liberalizing international trade, and creating a single global market. In its heyday during the 1990s, neoliberalism bestrode the world like a colossus. It ate its way into the heart of the former Soviet bloc. It confronted countries of the global South with the new rules and conditions for their economic development. Showing itself to be a remarkably versatile creature, neoliberalism even charmed the post-Mao Chinese Communist Party cadres whose reformed 'socialism with Chinese characteristics' looks suspiciously like its supposed ideological nemesis.

At the dawn of the new century, however, neoliberalism has been discredited as the global economy built on its principles has been shaken to its core by a financial calamity not seen since the dark years of the 1930s. Is neoliberalism doomed or will it regain its former glory? Will reform-minded G-20 leaders embark on a genuinely new course or try to claw their way back to the neoliberal glory days of the Roaring Nineties? Is there a viable alternative to neoliberalism?

Culminating in a brief reflection on these crucial questions, this book has been designed to introduce readers to the origins, evolution, and core ideas of neoliberalism by examining its concrete manifestations in various countries and regions around the world. Our exploration will show that although neoliberals across the globe share a common belief in the power of ‘self-regulating’ free markets to create a better world, their doctrine comes in different hues and multiple variations. Reaganomics, for example, is not exactly the same as Thatcherism. Bill Clinton’s brand of market globalism diverges in some respects from Tony Blair’s Third Way. And political elites in the global South (often educated at the elite universities of the North) have learned to fit the dictates of the Washington Consensus to match their own local contexts and political objectives. Thus, neoliberalism has adapted to specific environments, problems, and opportunities. For this reason, it makes sense to think of our subject in the plural – *neoliberalisms* rather than a single monolithic manifestation.

Preface

The main ideas, policies, and modes of governance fuelling these neoliberal projects lie at the heart of this volume. Carrying out our publisher’s wish to keep this introduction *very short*, we are forced to engage in a rather selective and general discussion. Its main purpose is to present an accessible and informative – but bare – outline of a rich and complex phenomenon. Readers who have digested the materials offered here and feel prepared to delve more deeply into our subject are advised to consult the concluding reference section.

We would like to thank the Global Cities Research Institute and the Globalism Research Centre at the Royal Melbourne Institute of Technology (RMIT University), as well as the Australian Research Council (ARC) for providing us with valuable research support. We also appreciate the helping hands extended to us by our colleagues and friends affiliated with RMIT University, the University of Hawai'i-Manoa, Claremont Graduate University, the University of California at Santa Barbara, the Shanghai Academy of the Social Sciences, the Free University Berlin, and the University of Oxford. Andrea Keegan and her able team at Oxford University Press have been wonderful to work with. But most of all, we wish to thank our respective families for their enduring love and support. Perle, Joan, and Nicole, this book is for you! Many people have contributed to making this a better book; its remaining shortcomings are our sole responsibility.

Abbreviations

ARC	Australian Research Council
AT&T	American Telephone and Telegraph
CCP	Chinese Communist Party
CIA	Central Intelligence Agency
DLC	Democratic Leadership Council
EPA	Environmental Protection Agency
ERM	Exchange Rate Mechanism
EU	European Union
FDR	Franklin D. Roosevelt
FTA	Free Trade Agreement
FTAA	Free Trade Area of the Americas
G-7	Group of Seven
G-20	Group of Twenty
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GRH	Gramm-Rudman-Hollings Initiative
HDI	Human Development Index
HIPCs	Heavily Indebted Poor Countries
IMF	International Monetary Fund
LDP	Liberal Democratic Party (Japan)
MITI	Ministry of International Trade and Industry (Japan)
MOF	Ministry of Finance (Japan)
MTFS	Medium Term Financial Strategy

NAFTA	North American Free Trade Agreement
NATO	North Atlantic Treaty Organization
NHS	(British) National Health Service
PPP	Purchasing Price Parity Index
PRI	Institutional Revolutionary Party (Mexico)
SAPs	Structural Adjustment Programmes
S&L	Savings and Loans Industry
SEZs	Special Enterprise Zones
SOEs	State-Owned Enterprises
TNC	Transnational Corporation
TRIPs	Trade-Related Aspects of Intellectual Property Rights
US	United States (of America)
USSR	Union of Soviet Socialist Republics
WTO	World Trade Organization

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Chapter 1

What's 'neo' about liberalism?

Liberalism old and new

Delivering his 2009 Inaugural Address in the throes of the worst economic crisis since the Great Depression of the 1930s, Barack Obama minced no words as he pointed his finger at what he considered to be the chief culprits of the global financial disaster: greed and irresponsibility on the part of some, and people's collective failure to make hard choices and prepare themselves for a new age. Expanding his argument, the youthful President insisted that the key question today was no longer whether government was too big or too small, but whether it worked. Then, looking straight into cameras that projected his stern image onto countless TV and computer screens around the world, the American leader took issue with the reigning economic paradigm of the last 30 years:

Nor is the question before us whether the market is a force for good or ill. Its power to generate wealth and expand freedom is unmatched. But this crisis has reminded us that without a watchful eye, the market can spin out of control.

The reaction from news pundits was swift and unambiguous: Obama's address was a clear indication that the age of 'neoliberalism' might be coming to an end.



1. President Barack Obama delivering his 2009 Inaugural Address

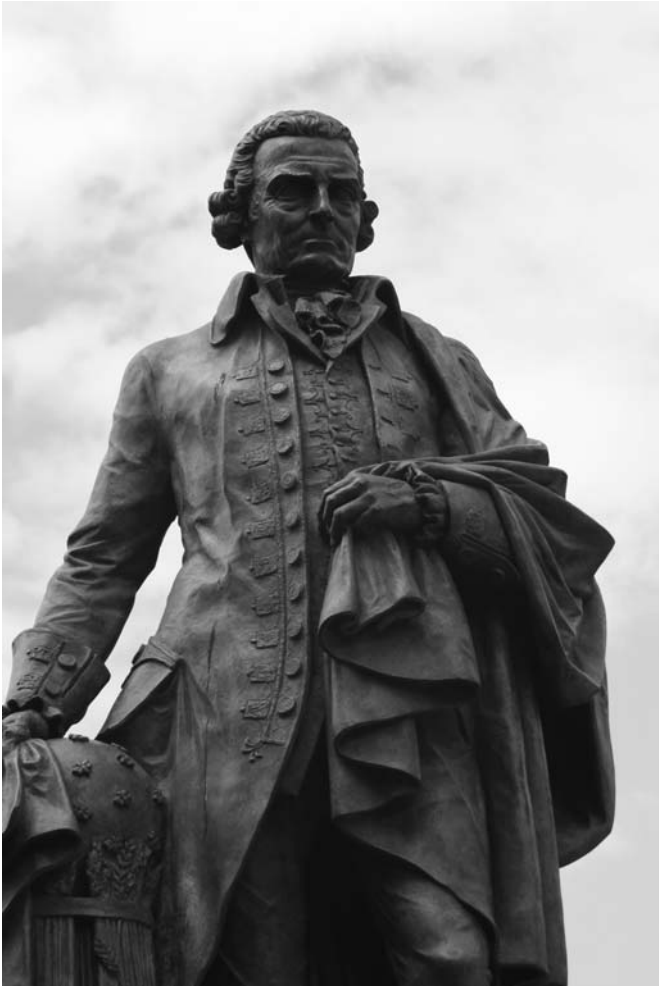
To be sure, the object of the President's criticism – the neoliberal ideal of the 'self-regulating market' as the main engine powering the individual's rational pursuit of wealth – had been a core tenet of economists since the late 18th century. Opposed to the mercantilism of monarchs who exercised almost total control over the economy in their efforts to amass large quantities of gold for largely bellicose purposes, 'classical liberals' like Adam Smith and David Ricardo preached the virtues of the 'free market' and *laissez-faire* economics. Smith is credited with creating the Scottish Enlightenment image of *homo economicus* – the view that people are isolated individuals whose actions reflect mostly their material

self-interests. According to this view, economic and political matters are largely separable, with economics claiming a superior status because it operates best without government interference under a harmonious system of natural laws. Thus, the state is to refrain from 'interfering' with the economic activities of self-interested citizens and instead use its power to guarantee open economic exchange.

Ricardo's theory of 'comparative advantage' became the gospel of modern free traders. He argued that free trade amounted to a win-win situation for all trading partners involved, because it allowed each country to specialize in the production of those commodities for which it had a comparative advantage. For example, if Italy could produce wine more cheaply than England, and England could produce cloth more cheaply than Italy, then both countries would benefit from specialization and trade. In fact, Ricardo even went so far as to suggest that benefits from specialization and trade would accrue even if one country had an absolute advantage in producing all of the products traded. Politically, Ricardo's theory amounted to a powerful argument against government interference with trade and was used by 19th-century liberals like Richard Cobden as a formidable ideological weapon in the struggle to repeal the protectionist Corn Laws in England.

What's 'neo' about liberalism?

For classical liberals, producers were the servants of consumers who pursued their material needs and wants as they saw fit. Dedicated to the protection of private property and the legal enforcement of contracts, 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. For most of the 19th century, the heirs of 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.



2. Adam Smith (1723–90)

Classical liberalism and the Enlightenment

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 (1632–1704) argued that in the ‘state of nature’, all men were free and equal, therefore possessing inalienable rights independent of the laws of any government or authority. 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.

How could there be such a thing as ‘market failure’, they reasoned, if markets – properly shielded from the meddling state – were by nature incapable of ‘failing’?

But the turbulent 20th century soon cast a dark cloud on these ‘truths’ of classical liberalism. It wasn’t until the 1980s that ‘neoliberals’ managed to bring back some of these quaint ideas – albeit dressed in new garments. So what happened in the intervening period? The story is well known. 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’ – the role assigned to the state by classical liberals. At the same time, however, Keynes and his new breed of ‘egalitarian liberals’ 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’: never again would workers fall into the clever trap of accepting their own exploitation in the name of high-sounding liberal ideals like ‘freedom’, ‘opportunity’, and ‘hard

What’s ‘neo’ about liberalism?

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