The Neo-Liberal Revolution

Forging the Market State

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The Neo-Liberal Revolution
Forging the Market State

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One of the significant trends of the last thirty years has been the reinvention of economic liberalism both as a form of political economy and as a political ideology. This cluster of ideas and policies has become known as neo-liberalism, and by the end of the twentieth century many had come to regard it not just as a hegemonic ideology but also as a largely unchallenged one, following the collapse of Communism in the USSR, the fading of alternative paths of development in the Third World and the new trajectory of social democracy in the West (Fukuyama 1992; Gamble 2000). Capital appeared to be triumphant once more. Furthermore, the nostrums of economic liberalism about the organization of the economy were once more being expressed as simple common sense and were encountering relatively little challenge, either politically or intellectually. The world was once again proclaimed to be One World, and it was a neo-liberal world.

The contrast with the 1970s is marked. At that time the long postwar boom was finally coming to an end, and the remarkable stabilization of capitalism which had taken place in the 1950s and 1960s was being challenged by an upsurge of industrial militancy in the capitalist heartlands, by the exploration of alternative paths of development by many countries in the capitalist periphery, and by the unmistakeable signs of a coming major global recession. The celebration of the end of ideology (Bell 1960) in the 1950s and fears for the disappearance of opposition in the West (Marcuse 1964) and the imposition of one model of development on the rest of the world appeared premature. In many of the major capitalist economies the basis of the political settlement between labour and capital, the Keynesian welfare state, which had stabilized and legitimized capitalism since the 1940s, came under challenge. The death throes of this regime were protracted and led to a political polarization
in the leading capitalist countries. Many on the left expected that with the return of old-fashioned capitalist crisis there would be new strategic openings for anti-capitalist forces of all kinds (Mandel 1978), both in the metropolitan centres and in the countries of the periphery.

The 1970s and 1980s witnessed a great convulsion in world capitalism – at once economic, political and ideological – a period of major restructuring, the contours of which were often hard to discern at the time, and frequently misunderstood. This was particularly true of the role played by new forms of ideology in the crisis, and in particular of neo-liberalism. The revival of doctrines of the free market, both as ideology and as political economy, was a significant feature of the period, but there was little agreement at first as to what it meant, and whether it indicated any deeper change of substance. The strong temptation in the West was to see neo-liberalism as trying to put the clock back to a kind of capitalism which no longer existed. It took some time to appreciate that neo-liberalism did have some distinctive new features as the prefix ‘neo’ implied, and was an integral part of the re-organisation of capitalist relations which was taking place.

Neo-liberalism is a term little used by neo-liberals. They tend to prefer other labels – free market liberalism, classical liberalism, liberal conservatives, economic conservatives or simply plain economic liberalism. The term was first used in the 1930s by the German economist, Alexander Rüstow, to describe new currents of liberal thought which were hostile to the forms of statism and collectivism which had been so dominant in the first half of the twentieth century (Nicholls 1994), and sought a new form of political economy which would give priority to market rather than bureaucratic or hierarchical means of ordering the economy, within a framework of law. These ideas were the inspiration for the experiments with a social market economy in Germany after 1945, and also for the founding of the Mont Pelerin society in 1948 by Hayek, Friedman, and others, in a defiant gesture against what they saw at the time as the dominance of anti-liberal ideals. Mont Pelerin was primarily a discussion circle for intellectuals, but many of its members were to be key figures in the later dissemination and popularisation of neo-liberal ideas (Turner 2004).

From the start, however, there have been at least two main strands of neo-liberalism, echoing the dominant strands of classical liberalism in the nineteenth century. There is a laissez-faire strand – the belief that the best policy is to allow markets to operate with as few impediments as possible – and there is a social market strand – which believes that for the free market to reach its full potential the state has to be active in
creating and sustaining the institutions which make that possible. Both strands give priority to the market within social relations, and both imply an active state. But in the first case the role of the state is primarily to remove obstacles to the way in which markets function, while in the second the state also has the role and responsibility to intervene to create the right kind of institutional setting within which markets can function. This second strand of neo-liberalism legitimates a wide range of state intervention – from the encouragement of structural adjustment, social capital and good governance in developing economies, to welfare safety nets, to investment in human capital, to environmental protection, to corporate social responsibility, even to limited forms of redistribution. By contrast, the laissez-faire strand is much more hard-headed and mean-minded. It is instinctively averse to interventions in markets, believing that such interventions do more harm than good, and that the outcomes of markets left to themselves are almost always benign, or at least as benign as it is possible for outcomes to be in an imperfect world.

It is tempting to confine the label neo-liberalism to the laissez-faire strand, but this would be to exclude many ideas and policies, which are routinely dubbed ‘neo-liberal’ in many different regions around the world – the policies of many international agencies, for example, including the World Bank and the IMF, as well as governments of different party complexions. Neo-liberalism, in common with many other ideologies, is made up of contradictory ideas and principles, which are used quite freely to construct a range of different discourses (Freeden 1996). Nevertheless, there do remain some core ideas by which all strands of neo-liberalism are recognisable, and one of these is the relationship of the state to the market. The market has primacy, but all neo-liberals recognise that a market order requires a particular kind of state to secure it. A free economy requires a strong state, both to overcome the obstacles and resistance to the institutions of a free economy, which constantly recur, and also to provide the non-market institutions, which are necessary for the market to be successful and legitimate (Gamble 1994). The necessity for the economy to be free and the state to be strong is perhaps the chief hallmark of neo-liberal thinking, but also one of the main sources of its contradictions.

As an intellectual doctrine, neo-liberalism first began to acquire wider attention through the critique of Keynesianism that began to emerge in the Anglo-American world in the late 1960s as inflation began to rise. The spearhead of this attack was the doctrine of monetarism associated with economists such as Milton Friedman and Alan Walters, but it
allowed the much wider critique of state involvement in the economy associated with the Austrian School and in particular with Friedrich Hayek and Ludwig von Mises to gain prominence (Barry 1987). By the early 1970s the writings of Friedman and Hayek were being widely disseminated by think-tanks like the Institute of Economic Affairs in Britain and the Heritage Foundation in the United States, and by influential financial journalists such as Peter Jay on the *Times* and Samuel Brittan on the *Financial Times* (Cockett 1995).

Until the acceleration of inflation in the leading capitalist economies at the end of the 1980s the monetarist critique of Keynesianism and the Austrian critique of social democracy had been treated with considerable disbelief, being seen as purely ‘ideological’ in a pejorative sense, throwbacks to an earlier stage of capitalism and having no real relation to the realities of modern capitalism. When *The Constitution of Liberty* had appeared in 1960 it was described by George Lichtheim as advocating a return to nineteenth-century laissez-faire, something which he regarded not only as undesirable but as impractical: ‘With its remorseless extrapolation of the logic inherent in the liberal doctrine, its unflinching demonstration that individualism is incompatible with the vital needs of modern society, this massive work stand as both a timely waning to political philosophers and an impressive monument to a myth’ (Gamble 1996: 3). Capitalism was now corporate capitalism, which required very different ways of legitimating and organizing itself than the simple precepts of economic liberalism allowed. There was a common view, particularly among Keynesians, that the success of capitalism in recovering from the Depression of the 1930s and reorganizing itself so successfully after 1945, and projecting itself as a development model for the whole world, was attributable to the much greater role played by the state in building prosperous national economies and redistributive welfare states, and actively promoting development and modernization around the globe. The state had a role at least equal to that of the market – and in many instances superior to it. The idea that the state should cease to be interventionist and should revert to a nineteenth-century ‘night watchman’ role, abandoning the lessons of Keynesianism and of social democracy and planned development, seemed bizarre and likely to precipitate a much deeper crisis for capitalism than the one that was currently being faced.

What surprised many of these critics was the speed with which the ideas of neo-liberalism jumped the barrier into practical politics, establishing themselves as leading ideas both in the national politics of particular states, and, perhaps more crucially, in the thinking of the
international agencies of the global order in the 1970s and 1980s. If neo-liberalism had had to rely for its dissemination on the internal politics of each individual capitalist state, its spread might have been slower and its influence less profound. But the end of the fixed exchange rate system in 1971 centred on the dollar and the floating of all the major currencies gave an enormous boost to monetarist ideas as the means for containing inflation from the mid-1970s onwards. The crucial development was the adoption of basic neo-liberal precepts by the international agencies as the new orthodoxy for containing the problems of stagflation. This was followed by the translation of these ideas into domestic programmes in the United States, Australia, New Zealand and Britain, and into new international programmes for dealing with the escalating debt of many developing economies.

Coming to terms with the significance of neo-liberalism has been a key element in understanding the changing character of contemporary capitalism. As stated above, at first many analysts were disposed to see it as an aberration, a throwback to an earlier period of capitalism, a revival of the discredited doctrines of laissez-faire, lacking foundations in the contemporary capitalist world. It was therefore strictly irrational as a response to the problems facing capitalism in the 1970s (Glyn and Harrison 1980). There was a widespread assumption, for example, on the left that capitalism in its monopoly phase could not afford the remedies offered by neo-liberalism. If they were to be adopted the result would be economic disaster, precipitating collapse on the scale of the 1930s, the eruption of major class struggles, and a huge spur to anti-capitalist movements in the capitalist periphery seeking to break away or insulate themselves from the global market. At the domestic level Keynesianism was still widely regarded as the most effective economic and political strategy for capitalism. It legitimated an active state to stabilize demand and maintain the economy close to full employment through the use of automatic stabilizers and high levels of public spending on welfare and defence programmes. The Keynesian policy regime was in difficulties in the 1970s because of the acceleration of inflation which exacerbated the fiscal crisis of the state and precipitated recession and sharply rising unemployment. But most economists continued to think that the choice, as far as metropolitan capitalism was concerned, was between a Keynesianism-plus programme, or a socialist alternative.

By the end of the 1980s neo-liberalism had successfully redrawn the terms of the debate, sidelining both Keynesianism and its socialist alternatives. In Britain and the United States the political interventions represented by Thatcherism and Reaganism established neo-liberalism as
the new dominant common sense, the paradigm shaping all policies. In many ways this was its most important accomplishment – it brought an end to the brief period when, as in the 1930s, there was entertainment of the idea that there might be serious alternatives to capitalism. Neo-liberalism reaffirmed the inevitability and legitimacy of the basic institutions of the capitalist order.

This political ascendancy of neo-liberal ideas could not be denied, but their rationality was still contested. One way of doing this became to contrast the influence of neo-liberalism in different models of capitalism. It was noticed that neo-liberal ideas were largely confined to the English-speaking countries of Anglo-America, and had much less salience in other leading capitalist economies, particularly in countries in the European Union outside Britain, and in East Asia, although they had been picked up and remorselessly applied in several countries outside the core, such as Chile. This led to the suggestion that neo-liberal ideas were a defensive strategy to shore up a failing model of capitalism which was increasingly under pressure from more successful models, particularly Germany, Japan and Sweden (Marquand 1988; Albert 1993). There was widespread incredulity at many of the policies which were prescribed by the Reagan administration and the Thatcher government and frequent predictions that while they might protect existing capitalist property in the short run, they would only do so by weakening the long-term performance of their national capitalisms, and thereby endangering the stability and legitimacy of the liberal world order. The destruction of manufacturing capacity and the undermining of investment in both welfare and infrastructure were widely regarded as perverse, particularly when measured against the performance of other capitalist economies, which appeared to manage with much lower unemployment, higher growth and more generous welfare services. The idea that the United States and Britain in particular were being outcompeted and left behind was very strong in the 1980s at the time of the debates on British and US decline (Coates 2000). Neo-liberalism was regarded as the ideology of an out-of-date capitalist model, which lacked the analytical tools to direct policy to appropriate remedies.

This view of neo-liberalism has remained influential and continued to inspire analyses in political economy of the policies that would be needed to reverse economic decline by making British and American capitalism more like the model observed in German or East Asian capitalism (Hutton 1995). This perspective was weakened, however, by the resurgence of American – and to a lesser extent British – capitalism in the 1990s, and the difficulties encountered by other national capitalisms,
particularly those of Germany, Japan and Sweden. By the end of the 1990s the triumphalism of US capitalism was back at full volume and neo-liberalism was unchallenged as the dominant ideology of the New World Order proclaimed by the Americans and had become inseparable from the discourse of globalization. By this means the domestic and the global aspects of neo-liberalism tended to merge into a single doctrine, appropriate to the restored unity of the global economy.

The idea of national capitalisms accordingly began to give way to new analyses of capitalism as a global system of accumulation, allowing different assessments of the role of ideology and politics in capitalist societies. Many of the analyses of neo-liberalism as irrational were focused on national capitalisms and particular sectors, such as industrial capital. But treating capitalism as a global system of accumulation and considering it from the standpoint of ‘capital in general’ rather than national or local capital, the rationality of neo-liberalism, and particularly its laissez-faire strand, as a political and economic strategy in a period of restructuring is more apparent. Neo-liberalism gives priority to capital as money and therefore to the financial circuit rather than to the production circuit. In a period of rapid restructuring this has the advantage of enabling policies to be adopted which clear the decks, removing subsidies and protection, and freeing up capital from fixed positions. It allows capital to regain mobility, dissolving the spatial and institutional rigidities in which it had become encased (Harvey 1982).

From this perspective the contribution of neo-liberalism to the restructuring of capitalism was that it provided a means by which capital could begin to disengage from many of the positions and commitments which had been adopted during the Keynesian era at both the national and international levels. The priority of monetarism was to make sound money once more the cornerstone of economic policy, and to abandon Keynesian commitments to full employment and economic growth, and to planned development in the developing world. The issue was never really whether monetarism as a technique could do what it claimed. In fact, monetarism in its initial forms proved to be unworkable, because whichever indicator of money supply was used, governments found they then lost control of other forms of money. The real significance of monetarism was political. As Hayek (1972) noted, the key issue was to recognise that inflation was not a matter of technical error on the part of the monetary authorities, but of the political balance of power. Kalecki’s (1943) famous analysis of the political import of Keynesianism, argued that it represented an alteration in the balance of power between labour and capital. If governments committed themselves
to policies of full employment it meant a significant weakening of the normal capitalist disciplines of bankruptcy and unemployment and a huge increase in the bargaining power of organized labour, particularly with regard to wages. The neo-liberal analysis was that this had led to the progressive extension of state intervention over the market economy in the form of wage and price controls, and the development of corporatist modes of governance for the economy. The political message of neo-liberalism was that the outcome of Keynesian political economy was accelerating inflation and growing state intervention. Making sound money once again the cornerstone of policy meant being prepared to take on politically all the vested interests which had grown up through the extended state and which helped to perpetuate the policies which were restricting the rights of managers to manage and were tying capital down in increasingly ossified economic and organizational structures.

Chief among these targets in the metropolitan countries were trade unions and the welfare state. As many costs as possible were to be shifted from the state and back onto individuals; and markets, particularly labour markets, should be made as flexible as possible. Viewed from the standpoint of capital in general rather than of particular capitals, neo-liberalism offers a simple and straightforward criterion for the direction of policy. The presumption is always in favour of recreating the best conditions for markets to flourish, which means removing as many restrictions on competition as possible and empowering market agents by reducing the burdens of taxation. For such a policy to be effective the state has to be prepared to break the resistance of any group which demands market protection or subsidy through the state. In practice, there are many exceptions. Since the extended state of the last hundred years was built up precisely through the granting of such protections and subsidies to one group after another such a task was ambitious in the extreme. It implied unwinding not just the coils of social democracy but the coils of all forms of democracy, including those which were in the electoral interests of the right (Hayek 1944). The leading capitalist powers have always found it easier imposing neo-liberal prescriptions on the ‘failed states’ of the periphery, rather than upon themselves.

As a result it has always been easier to set out what a neo-liberal programme should be rather than actually to implement it in practice, particularly in the developed capitalist states. It has often been easier outside the metropolitan core. In the last twenty years the actual record of even the most neo-liberal regimes have been deeply disappointing to many of their supporters, because they have failed to make the dramatic
inroads into state provision and taxation which had been hoped for. Neo-liberal intellectuals have often been as disillusioned with ‘their’ governments as socialist intellectuals have traditionally been with theirs.

One of the main reasons for this has been that neo-liberal governments in the capitalist core have been beset by dilemmas, among them the following: How far should they go in dismantling the state? How should they deal with corporate power? Can the state be reformed so that it merely polices the market order rather than intervening directly in the decisions which individuals should take? Can a liberal market order be reconciled with democracy and popular sovereignty? If it cannot, how can the legitimacy of the market order be assured? Can the process of democracy be trusted to produce governments that uphold the rules constituting the market order? How can the principle of popular sovereignty be subordinated to the overriding requirement of safeguarding the principles of a market order without suspending democracy? If, however, a market order can only be sustained by an authoritarian government, how stable and permanent will such a regime be?

Neo-liberals, particularly those addicted to rational choice models of government, often assert that the pursuit of self-interest is the overriding factor in determining the behaviour of individuals in both the public and private sectors. The difference is that in the private sector individuals are subject to competition, and the enforcement of these rules guarantees that choices are efficient and in the public interest. In the public sector there are no such checks, with the consequence that government departments and their budgets continually expand (Niskanen 1973). The paradox for neo-liberals is that their revolution in government requires that a group of individuals be found who are not governed by self-interest, but are motivated purely by the public good of upholding the rules of the market order. Yet if such a group existed it would contradict a basic premise of neo-liberal analysis. Since all power corrupts, even the most selfless neo-liberal government will soon find itself taking decisions which benefit the interests of the state or of corporate interests rather than those of the wider public.

One way out of this dilemma would be for neo-liberals to become libertarians and advocate the wholesale dismantling of the state, including state provision for defence and policing (Rothbard 1978). But if one thing distinguishes neo-liberals it is that they believe in the importance of maintaining a minimal state and acknowledge that without certain of the functions which the state discharges the market order could not exist at all. This is the Hobbesian side of their dilemma. Should they agree to cede all power to the Sovereign and trust that the Sovereign will
be benign and govern in accordance with neo-liberal principles? Their own analysis of human nature gives them no reason for thinking that the Sovereign will be anything but self-interested. The advent of democracy and the idea of popular sovereignty do not solve this problem. In fact, they intensify it, since neo-liberals gloomily conclude that states gain even greater legitimacy by wrapping themselves in its mantle, and this emboldens them to interfere with the market in the name of the people, but in reality at the behest of all the special interests which come to infest the state and shape the policy of the government.

As a result, granting the state absolute powers has generally seemed too risky to liberals, so they move from the Hobbesian side of their dilemma to the Lockean, by trying to make the powers of the state as limited as possible. The traditional liberal device for doing this is to separate the powers of the state into executive, legislature and judiciary, and make the government directly accountable to the people through regular elections. But it has always been hard to make this balance of power work without paralysing the government or allowing one section to dominate, and it poses the dilemma starkly: can the people be trusted to protect the market order and make their electoral choices in line with true liberal principles? When the electorate was confined to those who owned substantial amounts of property, it was reasonable to suppose that they would have an interest in preserving the rules of the market order and could be relied on to ensure through the way they cast their votes that the government did the same. But once the notion of the people was widened to all citizens, the difficulty of keeping the state minimal became acute, because it was obviously in the interests of politicians to promise benefits to particular groups of voters, spreading the costs over the whole body of citizens. This democratic ratchet, which saw each party in practice seeking to outbid every other party, gave the growth of the state an unstoppable momentum. This has presented neo-liberals with an unenviable choice – between trusting the sovereign or trusting the people.

In the eyes of neo-liberals the greatest failure of governments that have professed neo-liberal principles is that they have been unable to reverse the democratic ratchet and substantially reduce the size of the state. Despite all the rhetoric of ‘rolling back’ the state, the actual accomplishments in the metropolitan capitalist core were much more modest. For example, the Thatcher government was spending slightly more as a percentage of national income when it left power than when it came in. The burden of taxation was not reduced, but actually rose. What did change was the composition of public spending and of
taxation. The Thatcher government greatly reduced spending on programmes such as housing and industry, but was unable to cut back significantly on either education or health, and saw spending on social security and welfare dependency rocket, as the great shakeout of unprofitable British industry began and the level of unemployment doubled. But the ways of financing this expenditure were shifted away from direct to indirect taxation, with a doubling of VAT and a sharp reduction in income tax, particularly the top rates, assisted by North Sea oil revenues, the privatization of profitable state industries, and the sale of council houses. These changes were very important politically and helped consolidate the electoral coalition and the coalition of special interests which Thatcher had assembled, but it did not amount to a substantial and permanent reduction in the size of the state. Many of the neo-liberal supporters of the government wanted the Thatcher government to move towards a minimal state by taking the axe to state education and the National Health Service, encouraging people to take out private insurance for health and introducing voucher schemes for education. Several radical proposals were floated, notably in a Cabinet Office paper in 1982 which proposed ending automatic inflation protection for all social security benefits, ending state funding of higher education, replacing the NHS with private health insurance, charging for visits to the doctor, and introducing vouchers in education (Timmins 2001: 390). None of them were implemented. On one issue where the Thatcher government did attempt a radical shift, abolishing local property taxes in favour of a poll tax justifying the switch with impeccable neo-liberal arguments, it suffered a serious popular revolt, and this was one of the factors in the eventual downfall of Thatcher herself. Her successors quickly moved to ditch the offending tax.

The difficulty of engineering serious retrenchment in state spending (Pierson 1994) caused neo-liberal governments to shift their focus to how to make the public sector more efficient by introducing the disciplines of the market into the state. They embraced enthusiastically the techniques of the new public management, with its audits, targets, internal markets, performance indicators, and emphasis upon outputs. But the new public management was not the same as privatization. It has certainly been used to increase private sector involvement in the delivery of public services, but its central thrust is not so much concerned with shrinking the scale of government as with expanding its scope. The new public management, with its mantras of enabling government, steering not rowing, and the purchaser/provider split, was all about making the case for more active, efficient and effective
government (Pierre and Peters 2000). But if government is more active, efficient, and effective it is also likely to be more legitimate and to expand rather than to contract. Neo-liberals are caught again in a dilemma. If the state can be so reorganized that it delivers high quality public services, the need to privatise state services diminishes. On the whole, despite their rhetoric of rolling back, Conservative Governments in Britain between 1979 and 1997 did more to get the public sector to perform better than to dismantle it. This commitment to technocratic managerialism was much more apparent than any faith in neo-liberal principles about trusting in markets to deliver. Markets were used as managerial tools in the pursuit of publicly determined objectives.

The broader difficulty for the laissez-faire strand of neo-liberalism is that capitalism needs democratic legitimacy if is to survive, and welfare programmes since the time of Bismarck and Chamberlain have been recognised in the leading capitalist governments as part of the price capital has to pay for that legitimacy. Dismantling welfare provision and trade unions might provide capital with some short-term benefits, but in the long run risks leading to a build-up of hostility and desperation amongst the poor and the propertyless. One of the arguments for welfare programmes which found support on both right and left was that such programmes were necessary to incorporate the mass of the population within the capitalist order and let everyone feel they had a stake in it. In the leading capitalist economies, democracy tended to be social democracy because mass electorates voted for parties which would deliver collective social provision. In the era of mass democracies political parties of the right have always had to find programmes which could mobilize support, and often found it not in neo-liberal policies but in collectivist policies which promised security and protection. Laissez-faire seemed outmoded in the first half of the twentieth century partly because it had such weak electoral appeal. A programme to preserve the general rules which allowed the market order to function and stripped away all the protections and benefits which had been secured over several generations was never likely to be wildly popular.

Neo-liberals themselves tend not to be very good at winning electoral support. But a number of politicians have been adroit either at combining the neo-liberal economic programme with conservative policies which do appeal to particular interests and groups, or at recasting the neo-liberal economic policies in ways that resonate as popular common sense. The authoritarian populism of Thatcher and Reagan were two such successful employments of neo-liberalism by politicians on the right (Hall 1988; Hoover and Plant 1989). Both Thatcherism and
Reaganism had their own special interests which were subsidized up to the hilt, but from this base they targeted particular vested interests and particular government programmes, although both presided over an expansion of government – in the case of Reagan a massive expansion because of the defence budget. But despite – or perhaps because of – these glaring inconsistencies they were also able to force home their central ideological message that the age of big government was over, that governments existed to enable markets to work better, and to sustain the political and legal foundations of the market order. Thus were born these strange hybrids of Conservative government professing neo-liberal principles, and attempting to impose them on everyone except themselves.

In the 1990s the revival of the United States economy appeared to reinforce the neo-liberal message. By this time neo-liberalism had became associated with the new discourse about globalization, the Washington Consensus, and, therefore, with the policies of international agencies such as the IMF and World Bank pushing neo-liberal agendas throughout the capitalist periphery. The neo-liberal model was to be the template for the whole world. In this context neo-liberalism began to take on the mantle of a new hegemonic creed. At the same time it became more varied. As argued above, there have always been both laissez-faire and social market strands within neo-liberalism, and these strands were to become sharply delineated in the debates around the global economy and the appropriate institutions for it. The laissez-faire strand of neo-liberalism believed that what was needed was for states to get out of the way of the global market, and allow the benign processes of competition to work their magic. Privatization, deregulation, open borders, free trade and low tax regimes were the engines of progress. National governments and their protectionist policies and interventionist bureaucracies were the main obstacles to global prosperity.

This analysis extended among some of the more radical neo-liberals to many of the existing institutions of the global economy, including the World Bank and the IMF, which were regarded – along with the United Nations and the whole programme of foreign aid – as misguided political intervention in the global economy. Foreign aid was treated as a welfare programme at the international level which should be scrapped. The World Bank and the IMF were considered to be embryonic forms of a global government and were criticized for thinking of the global economy in Keynesian terms.

However, it was clear to many neo-liberals that the stability of the global economy did require a certain level of institutionalization, the formation in effect of a minimal state for the global level, paralleling
some of the functions which the state performed at the national level. In this way a new role for organizations like the IMF, the World Bank, and the WTO was devised. They were to become the agents for fostering the kind of policies and institutions, both national and international, which would make it easier for countries to enter the global market. Programmes for structural adjustment, investment in human capital, good governance and the building of social capital all followed. From a social market perspective interventions to reform the WTO and end the protectionist policies of the US and the EU, to advance the Kyoto agreements on climate change, and even tentative steps to address questions of the vast disparities in wealth and resources between different parts of the global economy could all be justified.

**Prospects for neo-liberalism**

One influential vision of the future for neo-liberalism, developed by theorists like Robert Cox and influenced by Karl Polanyi, is that neo-liberalism as a political and ideological project should be understood as the successor to the economic liberalism of the nineteenth century, the ideological and political project which had been responsible for the free market experiments of that time (Polanyi 1957; Cox 1996). Resistance to the consequences of free market policies from right and left led to the extension of collective control and regulation of the market in the twentieth century. Neo-liberalism represents the breakdown of those systems of control and regulation and the unleashing once more of the free market. Some think that the effect of the application of neo-liberal policies throughout the world will produce in time a strong political reaction and the re-regulation of capital at some point in the future. Pessimists believe that the more likely outcome is a fracturing of the global economy into antagonistic and protectionist regional blocs.

A different assessment of neo-liberalism and its prospects gives much less weight to it as a global ideology, and instead emphasizes the competitive pressures of capital accumulation in forcing the convergence of all capitalist models and all national economies towards neo-liberal institutions and policies, such as privatization, deregulation, shareholder value, flexible labour markets, and residual welfare (Coates 2000). There remains great controversy over how strong these pressures for convergence are, and how well they are being resisted. But there is a widespread acceptance that they exist. An influential variant of this view has analysed the imposition of disciplinary neo-liberalism through the main institutions of the global economy (Gill 1995).
Neo-liberalism has been interpreted in many different ways since it emerged, hydra-headed, in the 1970s. No sooner has one head been cut off than another has appeared, hissing all the louder. What has to be avoided, however, is a tendency to reify neo-liberalism and to treat it as a phenomenon which manifests itself everywhere and in everything. This kind of reductionism is not very useful. Far better to deconstruct neo-liberalism into the different doctrines and ideas which compose it, and relate them to particular practices and political projects, rather than treating it as though it is the source of everything else, from New Labour to global poverty. European social democracy, for example, has plainly been influenced by neo-liberal ideas, but to suggest that it has become simply an expression of neo-liberalism, is too simple a judgement. Many other factors are at work. Ideologies are extremely important, but ideological determinism is in the end no better than economic determinism, and no more illuminating.

What the history of neo-liberalism shows is that like other ideologies there is no pure form of it, and no single authoritative statement, and within its compass there can be found both highly subtle and extraordinarily crude versions. There are also a number of different political forms which it can take, a variety of hybrids and compounds. Much energy has been profitably spent identifying the links between neo-liberals and conservatives, including neo-conservatives, as well as social democrats.

It is sometimes asked whether within the confines of capitalist global economy there is any alternative to neo-liberalism, and some seem to think that so total has become the domination of capital and so one-dimensional the discourses surrounding it that the only possible opposition is total opposition from outside the system, such as the insurgents in Iraq (Watkins 2004). This view is profoundly pessimistic because it implies that only total overthrow of existing power relations from below or from without offers any prospect of change. Neo-liberalism itself, however, offers many examples of how in practice attempts to implement neo-liberal programmes in both developed and developing countries have highlighted inconsistencies in its ordering principles, producing conflicts and creating different sets of political possibilities.

In a sense which is true but rather unenlightening all governments throughout the global economy are now neo-liberal governments, because they are obliged to operate within a set of structures in the global economy which reflect, however imperfectly, neo-liberal principles. What is important to grasp, however, is that neo-liberalism – like globalization – is not monolithic or proceeding in a single direction. It
has different aspects and many contradictions, which create different political spaces and possible outcomes. The two faces of neo-liberalism, on the one hand the iconoclastic, ground-clearing, radical impulse to tear down the obstacles to capital accumulation, and on the other, the concern for using the state to ensure the democratic legitimacy of the market order and to create the kind of institutions which encourage participation and limit the destructive impacts of free markets, are often in conflict and will continue to determine the way in which this doctrine develops.

Another way of putting this is to say, as Richard Robison does, that markets need empires, in the sense that the market order by itself is a fragile thing, and needs the protection of non-market institutions and a range of public goods which only the state can provide. But empires, if they are to be stable, need to become hegemonic – they need to be inclusive, not simply dominant. The great strength of laissez-faire neo-liberalism is its understanding of the logic of capitalism, and the needs of the corporations that now drive the process of accumulation. Its great weakness is its blindness to the consequences of failing to attend to the effects of unrestricted capital accumulation on global poverty, the global environment, and the legitimacy of the global political order. This is why neo-liberalism as a doctrine and as a project has already mutated and will probably mutate some more, giving opportunities for a wide range of groups and ideologies to contest its hegemony and influence its trajectory.

Note

1 This chapter develops an argument which first appeared in *Capital and Class* 75 (2001), 127–34.