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What is This?
Neo-Liberalism

Andrew Gamble

ONE OF the significant trends of the last thirty years has been the revival of economic liberalism both as a form of political economy and as a political ideology. By the end of the century many had come to regard it as the new hegemonic ideology, 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. Capital appeared once more triumphant, and the nostrums of economic liberalism about the organisation of the economy were once more being expressed as simple common sense and encountering relatively little challenge, either politically or intellectually. Compared to the early 1970s when CSE was formed, this represented a remarkable transformation. At that time the long post-war boom was finally beginning to crack, and the remarkable stabilisation of capitalism which had taken place in the 1950s and 1960s was being challenged by an upsurge of industrial militancy and by the unmistakeable signs of a coming major global recession. What was under challenge in the 1970s was the basis of the political settlement between labour and capital, which came in retrospect to be called the Keynesian welfare state. The death throes of this regime were protracted and led to a political polarisation in the leading capitalist countries and the conviction on the left that the return of capitalist crisis would provide new strategic openings.

The 1970s and 1980s did see 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 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 its significance.
Neo-liberalism first made its appearance in the form of political economy as a critique of Keynesianism. The spearhead of this attack was the doctrine of monetarism associated with economists such as Milton Friedman and Alan Walters, but behind it was a wider critique of state involvement in the economy associated with the Austrian school and in particular with Friedrich Hayek. 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 (Cockett, 1995).

Before the acceleration of inflation in the leading capitalist economies the monetarist critique of Keynesianism and the Austrian critique of social democracy were widely disregarded. They were often regarded as purely ‘ideological’ in a pejorative sense, meaning that they were throwbacks to an earlier stage of capitalism and had no real purchase on 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. Capitalism was now corporate capitalism or monopoly capitalism, which required very different ways of legitimating and organising itself than the simple precepts of economic liberalism provided. There was a common view particularly among Keynesians that the success of capitalism in recovering from the Depression of the 1930s and reorganising itself so successfully after 1945 was due to the much greater role played by the state (Shonfield, 1965). The idea that the state should cease to be interventionist and should revert to a nineteenth century nightwatchman role, unlearning the lessons of Keynesianism, seemed bizarre and likely to precipitate a much deeper crisis 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 the leading ideas both in the national politics of particular states, and perhaps more crucially in the international agencies of the global order. If neo-liberalism had had to rely for its dissemination on the internal politics of capitalist states, its spread and its influence might have been slower. But the end in 1971 of the fixed exchange rate system centred on the dollar and the floating of all the major currencies gave an enormous boost
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to monetarist ideas as the means for containing inflation from the mid 1970s onwards. The translation of these ideas into domestic programmes in the United States, Australia, New Zealand and Britain followed.

Coming to terms with the significance of neo-liberalism has been a key part of the analysis of contemporary capitalism. The initial reaction treated 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. There was a widespread assumption 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. Keynesianism was still widely regarded as the most effective economic and political strategy for capitalism. It legitimated an active state to stabilise demand and maintain the economy close to full employment through the use of automatic stabilisers 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 socialist economists thought that the choice 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 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. The political ascendancy of neo-liberal ideas could not be denied, but the rationality of these ideas was still contested. One way of doing this became to contrast the role of neo-liberalism in different models of capitalism. Neo-liberal ideas were largely confined to the English speaking countries of Anglo-America, and had much less salience in countries in the European Union outside Britain, or in East Asia. This led to the suggestion that neo-liberal ideas were a defensive strategy to shore up a model of capitalism which was increasingly under pressure from more successful models, particularly those of Germany, Japan and Sweden. 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. 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. Neoliberalism 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 German or East Asian capitalism (Hutton 1995). This perspective has been 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 Germany, Japan and Sweden. By the end of the 1990s the triumphalism of US capitalism was back at full volume and neo-liberalism had become the dominant ideology of the new world order proclaimed by the Americans and also of the discourse of globalisation. Many now argued against the idea of national capitalisms, in favour of analysing capitalism as a global system of accumulation.

Some of these issues go back to the very earliest debates in the CSE, particularly those concerned with the nature of the capitalist state, and ways of understanding the role of ideology and politics in capitalist societies. One important issue concerns the relative weight to be given to capital in general as against particular capitals or fractions of capital. Many of the analyses of neo-liberalism as irrational have looked at national capitalisms and particular sectors, such as industrial capital. But looking at capitalism as a global system of accumulation and at capital in general, the rationality of neo-liberalism as a political and economic strategy in a period of restructuring is more apparent. Neo-liberalism
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gives priority to capital as money rather than capital as production. 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 (Clarke, 1988; Harvey, 1982).

The contribution of neo-liberalism to the restructuring of capitalism was therefore to provide a means by which capital could begin to disengage from many of the positions and commitments which had been taken up during the Keynesian era. The priority of monetarism was to make sound money once more the cornerstone of economic policy, and to give up the Keynesian objectives of full employment and economic growth. The issue was never really whether monetarism as a technique could do what it claimed. In fact monetarism proved to be unworkable, because whichever indicator of money supply was used, other forms of money went out of control. The real significance of monetarism was political. As Hayek noted, the key issue was to recognise that inflation was not a matter of technical error, but of the political balance of power (Hayek, 1972; Gamble, 1996). Kalecki’s famous analysis in 1943 of the political basis of Keynesianism, argued that it represented an alteration in the balance of power between labour and capital (Kalecki, 1943). 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 organised labour, particularly over 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 helped perpetuate the policies which were restricting the rights of managers to manage and were tying capital down in increasingly ossified economic and organisational structures.

Chief among these targets were trade unions and the welfare state. As many costs as possible should be shifted
from the state and back on to individuals, and markets, particularly labour markets, should be made as flexible as possible. Viewed from the standpoint of capital in general neoliberalism offers a simple and straightforward criterion for the direction of policy. The presumption is always in favour of recreating the widest possible 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. 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 heroic in its ambitions. It meant unwinding not just the coils of social democracy but the coils of all forms of democracy, including those of the right. Needless to say the actual record of even the most neo-liberal regimes in the last twenty years has been deeply disappointing to many of their supporters, because they have failed to make the dramatic inroads into state provision and taxation which were hoped for. The welfare state has proved a remarkably difficult structure to dismantle, certainly within the constraints of democracy.

One argument against neo-liberalism is that capitalism needs democratic legitimacy if it is to survive, and that welfare programmes are part of the ransom capital has to pay in order to be protected. Dismantling welfare provision and trade unions might help capitalism in the short run, but in the long run would lead to a build up of hostility and desperation amongst the poor and the propertyless. One of the arguments for welfare programmes which appealed to both right and left were that these were necessary to incorporate the mass of the population within the capitalist order and let everyone feel they had a stake in it. 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 mobilise 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 was never likely to be wildly popular.
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Neo-liberalism is still by itself not 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 commonsense. The authoritarian populism of Thatcher and Reagan were two such successful employments of neo-liberalism by politicians on the right. Both Thatcherism and Reaganism were inconsistent in that each had its own special interests who were subsidised up to the hilt, but in their war against vested interests and the size of government they did express the key neo-liberal principle that governments exist to hold the ring, and to sustain the political and legal foundations of a market order.

In the 1990s the revival of the United States economy appeared to reinforce the neo-liberal message. Neo-liberalism became assimilated with globalisation and the policies of international agencies such as the IMF and World Bank pushing neo-liberal agendas. In this context neo-liberalism began to take on the mantle of a new hegemonic creed. One influential variant of this was the argument, developed by theorists influenced by Karl Polanyi, that neo-liberalism was the successor to the economic liberalism of the nineteenth century, an ideological and political project which was responsible for the free market experiment (Cox 1996). Resistance to it from right and left had led to the extension of collective control and regulation of the market in the twentieth century. Neo-liberalism represented 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 (Gamble & Payne 1996).

A different assessment of neo-liberalism gives much less weight to it as a global ideology, and instead emphasises 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 privatisation, 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 1998).

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, and it is also politically paralysing. Far better to deconstruct neo-liberalism into the different doctrines and ideas which compose it, and relate them to particular practices and political projects. This is what I have tried to do in my own work, acknowledging the importance of neo-liberalism, but not 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.

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