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The Global Failure of Neoliberalism: Privatize Profits; Socialize Losses

November 6, 2008 | Volume 2 | Issue 3

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A groundswell discourse of ‘the end of neoliberalism’ is jamming the Left blogosphere. It has been building for some time. The Nobel prize-winning economist Joseph Stiglitz (July 7, 2008)[1] in *Project Syndicate* begins his column with the assertion that the ideology of ‘market fundamentalism’ has failed:

The world has not been kind to neo-liberalism, that grab-bag of ideas based on the fundamentalist notion that markets are self-correcting, allocate resources efficiently, and serve the public interest well. It was this market fundamentalism that underlay Thatcherism, Reaganomics, and the so-called “Washington Consensus” in favor of privatization, liberalization, and independent central banks focusing single-mindedly on inflation.

Writing before the collapse of Wall Street’s investment banks—the bankruptcy of Lehmann Brothers, the sell off of Merryl Lynch, the Federal bridging loan of $85 billion to AIG, and the massive $700 billion assistance to the U.S. financial sector —Stiglitz criticized neoliberal policies and their costs to developing economies.[2] He faulted the financial market allocation of resources to housing in the 1990s and the sub-prime crisis that has precipitated a global financial crisis and credit squeeze he thinks will be prolonged and widespread. He criticized the selective use of free-market rhetoric used to support special interests and the way that Bush’s policies have served the military-industrial complex. He concluded:

Neo-liberal market fundamentalism was always a political doctrine serving certain interests. It was never supported by economic theory. Nor, it should now be clear, is it supported by historical experience. Learning this lesson may be the silver lining in the cloud now hanging over the global economy.

John Quiggin (September 8, 2008),[3] the Australian social-democrat, following Stiglitz’s lead and spurred by the nationalization of Fannie Mae and Freddy Mac (that between them held some 5$ trillion of mortgages), under the same banner ‘The End of Neoliberalism?’ remarks:

The fact that the credit crisis has reached this point marks the failure of the central claim of the neoliberal program, namely that private capital markets, free from intrusive government regulation, can enable individuals and households to handle the risks they face more flexibly and efficiently than a social-democratic welfare state.

Others made similar claims and raised similar doubts concerning the march of neoliberalism after the Federal Reserve’s bailout of Bear Stearns. Thus, Lance Freeman (18 March, 2008),[4] for instance, comments:

The Federal Reserve's bailout (arranged liquidation to some) of Bear Stearns over the weekend seriously calls into question the headlong march toward neoliberalism that has been ascendant for the past few decades. Roughly speaking, neoliberalism called for a retrenchment of the state in favor of deregulated markets. As an ideological force neoliberalism held great sway in trade policy, the overall management of the economy and even at the local level where most planners operate.

He continues:

Once a government lifeline is thrown to Wall Street the whole philosophical underpinnings of neoliberalism would have to be called into question, even among the most faithful adherents of neoliberalism. The question of government intervention becomes a matter of degree rather than kind. That is, a strong central authority is needed to guide the economy. Left to its own devices the "free market" can run off the rails. Critics of neoliberalism have pointed this out for years. But as long as most of the pain was confined to the more disadvantaged members of the world proponents of neoliberalism could wave the misfortunes off as the forces of creative destruction, etc. With the whole system under strain, that is no longer the case. The notion that reducing government and deregulation is the answer to all our problems seems laughable now.

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In some sense the current series of crises that have rocked Wall Street to its foundations and threatened to destabilize the world financial system and its major banking and insurance institutions is just the latest round of failure for the global justice movement that has coordinated worldwide demonstrations against neoliberalism, 'the American imperialist project', the Iraq War, and strands referred to since the early 1980s as 'Monetarism,' 'Supply-Side Economics,' 'Reaganism/Thatcherism.' Longtime critics of neoliberalism and its policies of privatization, state non-interference and deregulation summed up in the so-called 'Washington consensus'[5] such as the economists Stiglitz, and Robert Polin (2003), sociologist Pierre Bourdieu (1998), geographer David Harvey (2005), philosopher/linguist Noam Chomsky (1999), as well as the anti-globalization movement in general,[6] have consistently argued that neoliberalism is a class project that benefits the rich and leads to ever-increasing inequalities both within and between states.

One of the most objectionable and inconsistent aspects of the neoliberal doctrine was the way in which market fundamentalism was *imposed* on developing nations as part of structural adjustment loans or simply forced through political and military measures, starting with the CIA-backed coup against a democratically elected government in Chile in 1973 (supported strongly by Milton Friedman) and becoming the policy stable for World Bank loans and prescriptions especially in Latin America during the 1980s. The imposition of market fundamentalism runs in complete opposition to neoliberalism’s own libertarian premises and emphasis on negative freedom.

The U.S. economy’s plight driven by the insurance and banking failures on Wall Street has excited the Obama-McCain debate for the U.S. presidency with McCain glossing over his support of Bush’s policies and trying to play down the statement that the ‘fundamentals of the economy are strong’ while Obama plans to strengthen the economy through tax breaks to the middle classes, emphasis on ‘fair trade,’ job creation through investment in manufacturing and protection of home ownership. The issue of the economy seems likely to take pride of place in the election and to dislodge the Republican emphasis on ‘character’ and ‘leadership’ that has now degenerated into a series of scurrilous attacks on Obama as ‘terrorist,’ ‘secret Muslim,’ and ‘Marxist.’

The Wall Street fiasco has already adversely affected world stock markets in Asia, Europe and Russia (which experienced the largest one-day fall in ten years). There are network effects in terms of the global economy. Robert Reich (15 September, 2008),[7] former Secretary of Labor under Clinton, remarked that

Ironically, a free-market-loving Republican administration is presiding over the most ambitious intrusion of government into the market in almost anyone’s memory.

And he added that although ‘The sub-prime mortgage mess triggered it, but the problem lies much deeper.’ He argued Wall Street is facing a crisis of trust based on promises that weren’t worth the paper they were written on and he concluded:

If what’s lacking is trust rather than capital, the most important steps policymakers can take are to rebuild trust. And the best way to rebuild trust is through regulations that require financial players to stand behind their promises and tell the truth, along with strict oversight to make sure they do.

Irrespective of who wins the presidential race it seems clear that some major overhaul of the international financial system is required; that government regulation needs to be established, minimally, to ensure transparency and full disclosure, to spell out capital requirements and to avoid conflicts of interest; and that some new order is required with the participation of both China and India.

The move to state-centric policies and to forms of Federal regulation in the U.S. and elsewhere now seem almost inevitable. Government intervention is now suddenly back in fashion and on the books at the IMF and World Bank. The move to Federal regulation and a reform of the financial system seems to chime with the development of state capitalism elsewhere, especially in East Asia,[8] and other forms of state-centrism seen as necessary for job creation and national reinvestment in infrastructure.

The political balance is swinging back. Neoliberal globalization will be written about ten years from now as a cyclical swing in the history of the capitalist world-economy.

Immanuel Wallerstein (2008),[9] the prominent world-systems theorist, also talked of the ‘demise’ of neoliberalism. He explained that ‘non-interference’ is actually an old idea that cyclically comes into fashion and that its counterview summed up in Keynesianism (mixed economies, protection of citizens from foreign monopolies, equalization and redistribution through taxation) has also prevailed in most western countries. He suggested that:

The political balance is swinging back. Neoliberal globalization will be written about ten years from now as a cyclical swing in the history of the capitalist world-economy. The real question is not whether this phase is over but whether the swing back will be able, as in the past, to restore a state of relative equilibrium in the world-system. Or has too much damage been done? And are we now in for more violent chaos in the world-economy and therefore in the world-system as a whole?

As the center of economic gravity shifts to East Asia it is not clear whether new

Keynesianism will be embraced or whether in face of such intensive global competition and fierce economic nationalism whether Western economies can ever afford to reestablish it. There is never the option of an innocent return historically or a return to the golden days of the welfare state in Scandinavia or New Zealand, or to the 'social model' in Europe, especially as new costly environmental and energy contingencies begin to bite. What is required is a change of *ethos*—not 'confidence' and 'trust' of the market but rather the development of trust that comes with the radically decentered democratic participation, collaboration and co-production that epitomizes the creation of public goods and distributed political, knowledge, and energy systems.

Notes

[1] See Stiglitz's commentary at http://www.project-syndicate.org/commentary/stiglitz101.

[2] The global credit crunch started with the subprime mortgage problems in the U.S. in the three year lead-up to 2007 and the faltering of Bear Sterns which is acquired by JP Morgan Chase for $240m backed by $30b of central bank loans (March, 2008). In the UK the Government rescued Northern Rock (Feb, 2008) and Lloyds buys out HBOS. IMF warns that the credit crunch could be higher than 1 trillion dollars (April). Indymac collapses in July and U.S. government steps in to assist Fannie Mae and Freddie Mac (guarantors of $5 trillion in mortgages) and later provides the largest bailout in U.S. history. Major European banks falter. UK nationalizes much of its banking sector; other countries follow suit. U.S. passes $700b financial rescue plan (3rd October). World stock markets volatility with largest one-day gains and losses. See the BBC credit crunch timeline: http://news.bbc.co.uk/2/hi/business/7521250.stm. World-wide network effects of credit crunch become evident, not well understood by economists because of the unregulated financial derivatives and complexity of credit default-swaps. Decoupling hypothesis (e.g., China and India insulated) seems disproven. Bank of England estimates 25% decline in value of global stock markets and $2.7 trillion in credit crunch.

[3] See his blog at http://johnquiggin.com/index.php/archives/2008/09/08/the-end-of-neoliberalism/.

[4] See his blog at http://www.planetizen.com/node/30187.

[5] The original consensus was based around the following tenants: 1. Fiscal discipline; 2. Reorientation of public expenditures; 3. Tax reform; 4. Financial liberalization; 5. Unified and competitive exchange rates; 6. Trade liberalization; 7. Openness to DFI; 8. Privatization; 9. Deregulation; 10.Secure Property Rights.

[6] I take Susan George's 'A Short History of Neoliberalism' as emblematic of this movement, see http://www.zmag.org/CrisesCurEvts/Globalism/george.htm.

[7] See Robert Reich's Blog at http://robertreich.blogspot.com/.

[8] In this regard see, in particular, Parag Khana's (2008) *The Second World: Empires and Influence in the New Global Order.*

[9] See Wallerstein (2008) 'The Demise of Neoliberal Globalization' at http://www.monthlyreview.org/mrzine/wallerstein010208.html.

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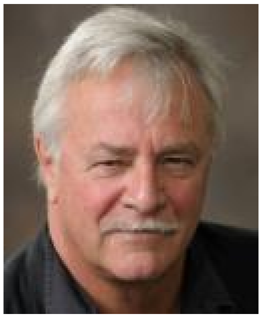

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