



GLOBAL NEOLIBERAL CAPITALISM AND THE ALTERNATIVES

FROM SOCIAL DEMOCRACY
TO STATE CAPITALISMS

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Neoliberalism: A Critique

In evaluating neoliberalism as a social and economic theory, one should avoid the trap of attributing all the virtues and/or faults of contemporary capitalist society to neoliberalism. Often critics link the practices of governments which they dislike to political and economic outcomes having no, or only an indirect, affinity to any neoliberal ideology or policy. Many denounce or praise ‘the way things are’ as consequences of neoliberalism. Consider Alan Greenspan’s list of the achievements of global neoliberalism:

During the past century, economic growth created resources far in excess of those required to maintain subsistence. That surplus in democratic capitalist societies has, in large measure, been employed to improve the quality of life along many dimensions. To cite a short list: (1) greater longevity, owing first to the widespread development of clean, potable water, and later to rapid advances in medical technology, (2) a universal system of education that enabled greatly increased social mobility, (3) vastly improved conditions of work, and (4) the ability to enhance our environment by setting aside natural resources rather than employing them to sustain a minimum level of subsistence. At a fundamental level, we have used the substantial increases in wealth generated by our market-driven economy to purchase what many would view as greater civility.¹

However valid such endorsements of economic and civilisational advancements may be, these achievements may not be consequences solely of neoliberal policies. Advances in scientific technologies, provision of universal education and improvement in working conditions would

¹ Alan Greenspan, ‘On globalisation’, Lecture delivered at the Institute for International Economics’ First Annual Stavros Niarchos Foundation Lecture 24 October 2001. Available at: <https://www.piie.com/events/greenspan-globalization>

have happened anyway as they occurred in statist societies such as Nazi Germany, social democratic Britain, the socialist USSR, and contemporary China – all countries operating under different economic and political systems to neoliberalism. Capitalist countries have adopted neoliberal policies on a piecemeal basis and their introduction has been mediated by the history and institutions of the societies in which they are embedded. Advanced capitalist economies with neoliberal governments, for example, often manipulate interest rates, subsidise failing industries and support welfare subsidies.

As a contribution to economic theory, neoliberalism has made some advances. The network idea of catallaxy is superior to Adam Smith's concept of the 'invisible hand'. The elimination of entry barriers to labour markets has led governments to further policies of inclusion and diversity and to enhance the upward mobility of labour. Liberal market policies, adopted in societies such as China, have opened up the economy by rewarding entrepreneurship and enterprise; policies of the World Trade Organization have facilitated free trade and the movement of capital and labour and consequently the industrial development of Asia and, to a more moderate degree, in Latin America. Adding markets to planning has had positive effects – notably, in China. The neoliberal criticism that promoting the interest of 'society' furthers the personal interests of politicians and elites is sometimes true; politicians can be self-serving and corrupt – but not always. Individual freedom and the notion that people receive 'what they deserve' have a widespread appeal under conditions of possessive individualism. Neoliberalism commands wide support and, as a normative theory, has been adopted by a very diverse set of political parties to shape public policy. But not all countries have benefitted and many liberalising economies have faced de-industrialisation, unemployment, poverty and economic crises. State-led industrialisation has also had successes. Neoliberal economics are predicated on maximising the satisfaction of individuals whereas the economies are often driven by the interests of corporations and firms, which have different operational principles.

Here we consider not the application of neoliberal policies but the underlying theoretical assumptions of global neoliberalism. Neoliberalism contextualises and affects the ways that politics, economics and globalisation operate. I turn to discuss seven dimensions where capitalism rooted in neoliberalism may be faulted. These are listed briefly, then elaborated in the text that follows:

- that the aggregate of individuals' market behaviour is an inadequate basis for economic policy;
- that individualistic catallaxic exchanges do not cumulatively meet the needs of collectivities;

- that countervailing economic power does not operate to overcome inertia or to stabilise economic cycles;
- that financialisation of economic relations is often perverse and may lead to speculation;
- that private ownership of productive assets can distort economic incentives, stifle entrepreneurship, and lead to idleness;
- that neoliberal policies ignore conflicts caused by class relations;
- that the continual and cumulative pursuit of consumption does not fulfil human needs, and the operation of markets does not always give people ‘what they deserve’.

Psychological subjectivism

Neoliberal methodology is predicated on the subjective propensities of individuals to make their own choices. Such economic thinking is a form of subjectivism: suppositions and motivations in people’s minds guide behaviour. This has the merit of putting the individual at the centre of economics but concurrently ignores recurring human associations, such as companies, and social classes. Corporations are collectivities with multiple aims. Ownership and the division of labour give rise to social classes whose leaders and associations promote collective interests. By putting individuals at the centre of its analysis, neoliberalism does not take adequate account of the unequal division of economic and political power. It is a psychological rather than a sociological approach. To explain economic conduct, institutional structures as well as dominant and subordinate social classes should be taken into account.

To promote collective well-being and optimum welfare, one must consider the social distribution of physical and financial assets. Demand fulfilled through the market mechanism satisfies individual wants. However, those with the most financial assets exert a disproportional influence on the market while concurrently short-changing those with the least. Fulfilling individual wants, created by advertising, is not the same as meeting human needs. Hence the emphasis on choice given by the market does not necessarily promote a just distribution of human welfare. The institutional framework and unequal distribution of wealth limit the choices of the poor. The London property market fulfils the wants of the rich, while the needs of the poor and even the moderately well off cannot be met. The latter lack the assets to enter the market; their ‘choice’ is determined by their means, by the distribution of income and wealth, which shape their market preferences. While market exchanges enable properties to be sold to the highest bidder, they do not ensure an equitable distribution of properties. Consequently, demand for expensive property stimulates the building of more of the same kind.

This is not a fault of the market but of unequal income and wealth distribution. The market is a neutral mechanism, what is ignored in neoliberal theory and practice is that market players in capitalist societies are grossly unequal. We experience no countervailing economic forces to meet the needs of the poor for housing as they are not expressed in terms of economic 'wants'. The articulation of 'wants' as expressed in personal demands is not the same as social needs. The rich can buy healthcare at any price thus utilising scarce medical resources for trivial wants, such as cosmetic surgery, while the needs of the sick, who may be poor, remain unattended. This is even more unjust if the wealth has been achieved without merit.

Equilibrium analysis is concerned with satisfying existing individual wants efficiently. In neoliberal thinking there is an absence of holistic knowledge (considering the economy as a whole), only the sum of the perceptions of free individuals, fulfilling their 'choices' in the selection of goods and services, is considered. 'Wants' may also be created artificially through advertising thus leading to spiralling demand for commodities, consequently depleting nature's resources and contributing to environmental costs. The market might be a mechanism promoting public welfare if the distribution of assets was made equal, but this would undermine a cardinal component of neoliberal capitalism: the freedom to own unlimited assets. Reducing the barriers to equality of opportunity for the poor to become richer, or promoting diversity in the labour market does not address the levels of institutionally determined inequality. The constitution of inequality is inherited wealth. A concept of 'society', however, implies that human beings can calculate how to meet human needs on a collective basis. Democracies can justifiably limit liberty by promoting equality based on consideration of needs or desert, rather than, as in a liberal framework, promoting equality of opportunity. Democracies bring values, other than economic ones, to consider the constitution of human needs.

Catallaxy and the fulfilment of wants

The process of catallaxy does not achieve the optimum fulfilment of people's wants. Hayek and other neoliberal writers do not sufficiently take into account the fact that knowledge is imperfect. As equilibrium depends on the compatibility of the subjective plans of all people who interact, we cannot assume that all people will adjust their own plans to make them mutually compatible. Individuals cannot know the intentions of others; they must guess and in so doing will make mistakes. Hence, without compatibility, the market cannot operate in an optimum way. Catallaxies take the form of continual adjustments and readjustments, which do not always lead to moving equilibriums. Such incompatibilities have led to serious market

failures, enduring slumps and damaging crises. Neoliberals assume that with time compatibility will develop and lead to a single equilibrium which will satisfy the wants of all actors. However, economies can sustain different market structures with their own equilibriums. There can be ‘multiple equilibriums’ caused by information asymmetries and institutional rigidities. Capitalist countries have severe regional divisions and imbalances. ‘The market’ does not create one equilibrium through complementary flows of investment and labour. Regions maintain their own equilibriums through inertia. For example, the regions of Arkansas (US), Tyneside (UK) and Ivanova (Russia) have not attained the levels of other prosperous national regions but remain in a static state of poverty well below their economic potential. Taking account of such imbalances, governments can introduce policies to remedy them.

Social institutions (such as corporations and economic organisations) form the major economic units in globalised capitalism. Hegemonic economic power in the form of corporate global companies can shape outcomes, rather than autonomous and anonymous processes involved in the operation of catallaxies.² Economic activities in households are largely separate from the operation of the national economy³ and do not figure in market exchange. Institutions (such as schools, universities), economic enterprises (corporations), and political entities (states, parties) contain diverse and often conflicting interests, which makes catallactic exchanges problematic.

In a global market economy, as countries have different living standards, outsourcing of production leads to poor countries with low wage costs providing labour at a fraction of the cost of developed countries. Hence capital flows to the former concurrently lead to unemployment in the latter. A free labour market encourages cross-national migration, which causes disruption to families, depopulation in declining areas (and poverty for those who remain, despite the receipt of remittances) and strain on resources in immigrant areas. The ideology of neoliberalism legitimates migration as a social good in promoting social welfare and wealth creation, the other side of the coin is social stress, not only in the host areas but also in the parent ones. The ‘problem’ of migration is not to be resolved by adjustments in regulation but by developmental policies in the areas of origin. Catallaxy operates at the level of individual exchange and ignores the collateral cost on third parties and on society. There is no calculation of social cost. As social costs may even be higher than individual costs (when, for example,

² See Andrew Gamble, The new political economy, *Political Studies*, XLIII (1995), pp 516–30, especially pp 526–7.

³ See J.K. Gibson-Graham, *The End of Capitalism (As We Knew It)*. Minneapolis: University of Minnesota Press, 2006.

noise, water and air pollution are involved) then satisfaction of individually perceived wants is not an optimum solution.

The market can operate to the disadvantage of employees as they have considerably less bargaining power than employers and, in poor countries, employees have even less power and weaker labour laws.⁴ The fault in neoliberalism is that it considers individuals who are assumed to be equal in relation to the market, not organisations, which are unequal. Neoliberal policies have led over time to rising levels of income – which is positive – as well as concurrently to vast increases in differentials within countries. However, between countries, as I show in [Chapter 9](#), the differential between the leading Western countries, on the one side, and China and some East Asian and Pacific countries, on the other, has narrowed. Since the mid-1970s, outsourcing due to globalisation has had positive effects in the host countries but not in the parent countries.

Economic outcomes are not optimal

A state of equilibrium may not be optimum from the point of view of the utilisation of resources on a societal level. While Hayek emphasises that there is movement towards equilibrium, to reach it may take a long time. The economic history of capitalism is punctuated by cyclical movements, by periods of slumps as well as economic crises. In Hayek's terms, a catallactic movement to a sub-optimal equilibrium is achieved through marginal adaptations. Self-correcting or countervailing forces of the market may be weak or non-existent resulting in underemployment settling at a sub-optimal use of capital and labour. This is a fault of market capitalism. As Keynes put it: the economic system 'seems capable of remaining in a chronic condition of subnormal activity for a considerable period without any marked tendency either towards recovery or towards complete collapse'.⁵ Equilibrium can settle at a below optimum level and is not corrected through the economic mechanism.⁶ Even a rise in the prospective yield of capital may not be followed by investment (as greater profit may result from speculation on the stock exchange) and hence does not result in a rise in employment.⁷ Structural unemployment of labour and capital can continue, ensuring a condition well below a Pareto optimum. There is no *economic* countervailing

⁴ See discussion in D. Rodrik, *The Globalisation Paradox: Why Global Markets, States and Democracy Can't Coexist*. New York: Norton, 2011, particularly Chapter 9.

⁵ Keynes, *General Theory*, p 249.

⁶ See discussion in Keynes, *General Theory*, pp 249–54. Joan Robinson showed how imperfect competition led to firms producing below the optimal level. J. Robinson, *The Economics of Imperfect Competition*. London: Macmillan (2nd edn), 1969.

⁷ Keynes, *General Theory*, p 250.

power. Such countervailing power as exists is that of governments, which are not a form of market adaptation.

A convincing case can be made for state-led investment. As William Janeway writes: ‘neoclassical economics is irrelevant to understanding how the Innovation Economy evolves through historical time, for its core purpose is to identify the conditions under which a competitive market economy will reach an efficient, timeless equilibrium in the allocation of resources’.⁸ Developmental economics in contrast is predicated on securing economic growth, which requires long-term capital investment which is quite rationally denied if short-term financial gain is the economic objective.

In neoliberal thinking, there is an excessive emphasis on meeting consumer wants. As Hayek put it: ‘[T]here is no known way, other than by the distribution of products in a competitive market, to inform individuals in what direction their several efforts must aim so as to contribute as much as possible to the total product’.⁹ The emphasis here ignores the economic benefits of state welfare provision which is instituted when markets fail. Shifting provision away from collectively provided health services often leads not only to higher costs but to deterioration in overall provision.¹⁰ Transaction costs of marketisation should be set against potential benefits. It is often claimed that state managed health provision provides not only a comprehensive but also a more efficient service for the population as a whole than those run on a profit-maximising basis. The latter certainly provide better services for those with the ability to pay – the market rewards the rich.

Ownership and control

What is lacking in the neoliberal approach is any consideration of the perverse ways in which economic and political power are unevenly distributed. Security of rights to private property is justified by von Mises and Hayek as a necessary condition for the development of capitalism. For its initial rise, they have been correct. But the literature, even of the 1930s, on the modern corporation and the separation of ownership from control, is ignored.¹¹ Such division in the structure of corporations puts in question whether private corporate ownership is any longer a necessary, let alone a positive, feature of a modern market society. The point here is that the state representing the

⁸ W.H. Janeway, *Doing Capitalism in the Innovation Economy: Markets, Speculation and the State*. Cambridge: Cambridge University Press, 2018, p 8.

⁹ Hayek, *The Fatal Conceit*, p 7.

¹⁰ P. Watson (Ed), *Health Care Reform and Globalisation*. London: Routledge, 2013.

¹¹ Of note is the work of A. Berle and G. Means, *The Modern Corporation and Private Property*. New York: Commerce Clearing House, 1932; and later work such as R.K. Marris, *The Economic Theory of Managerial Capitalism*. New York: Free Press, 1964.

public interest (as with nationalised companies) can act equally as well as, or even better than, thousands of individual shareholders who are powerless. In such cases, under free enterprise, managerial control remains unchecked and leads to enormous unjustifiable financial rewards to company executives.

Neoliberals conceive of ownership as promoting freedom, but they ignore the ‘unfreedom’ that is experienced by those who do not own corporate property. The alternative posed by Hayek is between substituting state ownership for private ownership. State ownership, he explains, would put the state ‘in a position whereby its actions must in effect decide all other incomes’. He contends that ‘a world in which the wealthy are powerful is still a better world than one in which only the already powerful can acquire wealth’.¹²

The reality of modern capitalism is that the ‘already powerful’ are those who possess wealth and they determine who are the ones best placed to acquire more wealth. It is quite remarkable that Hayek relies on Trotskyite literature of the late 1930s to conclude that, as a consequence of political power, income differentials in the USSR were greater than in the USA.¹³ Studies show that differentials, even if we include payments in kind, were absolutely and relatively lower in the USSR and later in the European socialist states. Even the most extreme estimates of income differentials for the USSR in the 1960s gave the maximum salary at 300 times higher than the minimum wage. Whereas Gerhard Lenski, writing at that time, found a ratio of 11,000 to one for the USA between the highest and the lowest earnings.¹⁴ (We consider recent data on income differentials in [Chapter 5](#) of this book.)

Differentials have risen greatly in post-socialist European states (exponentially in some states of the former Soviet Union). In capitalist states the unequal inherited ownership of wealth is the greatest source of unjustifiable income inequality. Hayek concedes that state planning can secure ‘a more just and equitable distribution of wealth ... It is indisputable that if we want to secure a distribution of wealth which conforms to some predetermined standard ... We must plan the whole economic system’.¹⁵ However, he continues that it is not worth the ‘price to pay’ for the oppression it will create, and he gives preference to increases in productivity to increase national wealth rather than redistribution.¹⁶ These are debateable propositions. He does concede that one should not

¹² Hayek, *The Road to Serfdom*, discussion and quotations from pp 77 and 78 respectively.

¹³ Hayek, *The Road to Serfdom*, fn 1, p 77.

¹⁴ David Lane, *The End of Inequality?* London: Penguin, 1971, p 74.

¹⁵ Hayek, *The Road to Serfdom*, p 74.

¹⁶ Hayek, *The Road to Serfdom*, p 155.

‘depress large classes as to turn them into determined enemies of the existing order’. In such cases, presumably, redistribution is justifiable.¹⁷ Providing equal opportunity for individuals to become unequal (freedom of opportunity) does not address the unequal personal distribution of private capital. Modern governments are (or should be) subject to public accountability, whereas private corporations are responsible only to their share-holders, who expect profits, and they are controlled by directors who regulate the proceeds. Neoliberals endorse financial incentives as a stimulus for efficient work performance and promote the model of the individualistic innovative wealth-making entrepreneur. But they ignore the idle rich who live on the proceeds of inheritance or unearned profits. The logic of the neoliberal position to further individual striving, and innovation should be to curb inheritance as it deters its beneficiaries from taking work.

The emphasis on the need for the economic system to provide profits as an incentive for hard work and entrepreneurship sometimes has positive effects, but not always. Often, the rewards of top banking executives and financial market managers are a consequence of greed for personal income, rather than a reward for innovative work. To take one example: hedge funds returned an average earning of 3 per cent in 2014 (compared with 9 per cent in 2013) and underperformed the US S&P index. Despite this mediocre performance, the 25 best paid fund managers earned \$11.62 billion in 2014 – Ken Griffin of Citadel \$1.3 billion and James Simons \$1.2 billion. While this is less than in 2013, it is quite disproportionate to other earnings.¹⁸ It beggars belief to suggest that these incomes are legitimate rewards for efficient management or to act to stimulate innovation and reward effort. The question must also be raised as to whether the services of fund and asset managers could be replaced with some other method of financial management.

Global economic crisis

Capitalism has always experienced economic crises, and it has fallen to states, rather than ‘the market’, to restore financial equilibrium. The extent of economic dislocation that occurred during the economic crisis of 2007–08 cannot be underestimated: capital equity loss of US banks was \$3.6 trillion;¹⁹

¹⁷ Hayek, *The Road to Serfdom*, p 155.

¹⁸ Data cited in *Financial Times* (London), 8 May 2015.

¹⁹ M. Richardson and N. Roubini, *Washington Post*, 15 February 2009. Cited by J. Crotty, Structural causes of the global financial crisis: A critical assessment of the ‘new financial architecture’. *Cambridge Journal of Economics*, 33 (2009), pp 563–80, reference p 569.

unemployment has been estimated to have risen world wide by 50 million people and more than 200 million people were pushed into poverty.²⁰ As Adam Tooze has cogently put it:

The ‘great trade collapse’ of 2008 was the most severe synchronised contraction in international trade ever recorded. Within nine months of their pre-crisis peak, in April 2008, global exports were down by 22 per cent ... In the United States between late 2008 and early 2009, 800,000 people were losing their jobs every month. By 2015, over nine million American families would lose their home to foreclosure – the largest forced population movement in the United States since the Dust Bowl. In Europe, meanwhile, failing banks and fragile public finances created a crisis that nearly split the eurozone.²¹

The question to be addressed is what components of the world economic system were responsible for the crisis. In its Global Financial Stability Report for April 2007, the IMF pointed to weaknesses in the structure of the world’s financial system: there had been a significant rise in private sector debt and the globalisation of business had led to a weakening of individual banks.²² By October 2008, the Fund pointed out that ‘the global financial system has entered a new phase of the crisis where solvency concerns have increased to the point where further public resources have had to be committed to contain systemic risks and the economic fallout’.²³ There were many underlying causes that cannot be considered in detail here; major factors were that companies in the financial sector had issued credit to high risk clients with insufficient liquidity to honour claims by depositors. Consequently, major banks defaulted when they had insufficient cash reserves to meet withdrawals; financial companies (Lehman Bros, Northern Rock and others) became bankrupt; insurance companies, such as AIG, also faced financial instability (AIG was saved by the US government buying its stock). The geographical interdependence of financial corporations, especially the crucial role of American corporations had global effects.²⁴ The weakness of international coordination of the financial corporations led the public sector, at great public expense, to finance rescue operations which, in turn, turned private debt

²⁰ Data cited in S. Blankenburg and J.G. Palma, Introduction: The global financial crisis. *Cambridge Journal of Economics*, 33 (2009), pp 531–38, p 532.

²¹ Adam Tooze, The forgotten history of the financial crisis, *Foreign Affairs*, 97:5 (September 2018), pp 199–210, quotation p 199. For a detailed account of the crisis see: Tooze, *Crashed*.

²² IMF, *Global Financial Stability Report*. Washington DC: IMF, April 2007, p ix.

²³ IMF, *Global Financial Stability Report*, pp 4–5.

²⁴ See Tooze, The forgotten history of the financial crisis.

into public debt. Public debt was financed through government financial stringency, particularly ‘austerity programmes’.

The crisis, however, cannot be attributed to ‘neoliberal’ economics in a strict sense. While it is true that lax financial conditions promoted choice through easy credit, neoliberal economists have emphasised the importance of a regulatory framework for the market. It was a ‘crisis of financial capitalism’;²⁵ of striving for profit by the under- or un-regulated banks in an unsustainable system. Many neoliberals opposed government support for the ailing banks on the grounds that they had acted negligently. Senator Richard C. Shelby, the senior Republican to the Senate banking committee, opposed the US Treasury’s proposal to use \$700 billion to support the banking industry. He contended that ‘bank capital standards’ were not designed to ‘ensure safety and soundness’; ‘financial firms were leveraged heavily to maximise profits’.²⁶ Opposition was also voiced by Bernie Sanders who opposed the provision because it did not stipulate limits to housing repossessions and did not limit executive income. The US government would bail out the rich at the expense of the poor who would lose their homes. In Hayekian terms, the market mechanism did not have any economic countervailing power; the financial system lacked financial rules, which are a systemic requirement for neoliberal economics. While American Republicans opposed state bail-outs, the banking system nevertheless was saved by state regulation to prevent a complete economic collapse. State intervention showed that market mechanisms were unable to solve the economic crisis without unacceptable economic costs. The state rescue of the financial system effectively maintained the (badly managed) financial institutions at public cost.

Political power and possessive individualism

Underlying the theoretical framework of economic liberalism are the psychological motivations of individuals. Possessive individualism is the bedrock of neoliberalism.²⁷ Its model of capitalism lacks a dimension of political power. The role of social classes, as well as ruling economic and political elites, are either excluded from or are marginal to the paradigm.

It is incorrect to claim, as does Hayek, that competition does not lead to oligopoly and monopoly.²⁸ The free market, free trade and free mobility of

²⁵ Tooze, The forgotten history of the financial crisis, p 2.

²⁶ Speech quoted in D.M. Herszenhorn, A curious coalition opposed bailout bill, *New York Times*, 2 October 2008, available online.

²⁷ See C.B. Macpherson, *The Political Theory of Possessive Individualism: Hobbes to Locke*. Oxford: Oxford University Press, 1963; Gamble, *Hayek: The Iron Cage of Liberty*, Chapter 3.

²⁸ See discussion in Hayek, *The Road to Serfdom*, pp 32–3.

capital have led to the growth of global oligopolies. Neoliberal globalisation has had the effect of making it easier for transnational corporations to acquire subsidiaries irrespective of their geographical location. Side effects have been de-industrialisation and the shift of industrial production to cheaper geographical sites, often leading to economic hardship for the displaced workforce and its dependent population. As we note in [Chapter 9](#) on globalisation, the dominant class becomes global. In the neoliberal approach, all parties are supposed to gain through competition but in practice some gain at the expense of others.

Neoliberalism is predicated on a simplistic economic theory of human behaviour. Many claims are based on assumptions about individual free choice. ‘Choice’ is limited by an individual’s stock of economic, social and political assets. Individual choice is only one and not the most important criterion of human progress and welfare. Security, health, family, a regular income and a worthwhile occupation, social solidarity and fraternity all contribute to human happiness.²⁹ Such objectives should also find a place in political and social policy. In denying the existence of ‘society’, neoliberals ignore the fact that human civilisation is a social construct. Without society, human existence would remain at a pre-civilisational level. Human beings consciously create institutions, such as universities, trade unions, codes of law, corporations and governments. Hayek dismisses the capacity of human collaboration to further development; ‘socialist aims and programmes are factually impossible to achieve or execute ... [O]rder generated without design can far outstrip plans men consciously contrive’.³⁰ Planning is held to be not only impossible but harmful. ‘Economic liberalism ... regards competition as superior not only because it is in most circumstances the most efficient method known, but even more because it is the only method by which our activities can be adjusted to each other without coercive or arbitrary intervention of authority.’³¹ This conclusion can be challenged on theoretical and empirical grounds. The planning mechanisms already used by major capitalist corporations can be utilised in state decision-making.³² As conscious control of the economy, of which planning is a part, constitutes a cornerstone of collectivist policy, I postpone until [Chapter 4](#) a discussion of the advantages of planning.

²⁹ For further development see: Robert E. Lane, *The Market Experience*. Cambridge: Cambridge University Press, 1991.

³⁰ Hayek, *The Fatal Conceit*, pp 7–8.

³¹ Hayek, *The Road to Serfdom*, p 27.

³² L. Phillips and M. Rozworski, *People’s Republic of Walmart: How the World’s Biggest Corporations are Laying the Foundation for Socialism*. London: Verso, 2018.

Conclusion

‘Neoliberalism’ is an ambiguous and overused term. It should not be conflated with the effects of globalisation, bureaucratisation, faulty financial processes (excessive lending) and the geo-political interests of states. All these forces may influence the nature of policies and become intertwined with neoliberal policies, but they should be distinguished from them. Neoliberalism has psychological, economic, political and social dimensions. The psychological basis at the heart of neoliberalism is that the pursuit of self-interest (enabled by the institutions and processes of neoliberalism) gives people what they deserve as well as what they want. The institutional complex best suited to fulfil this objective is given by competitive capitalist market relations.

In repudiating the role of the state to achieve self-realisation and social protection, neoliberalism has undermined collective agency and replaced it with individualistic competitive activity. It has had more appeal and success at a micro level, as its frame of reference is individuals. It has validated a belief in diversity, in the fulfilment of consumer wants and market choice; it has appealed to those who seek individualist solutions to public problems. The process of marketising the operations of the state also has involved enormous transaction costs and hyper bureaucratic controls. Ironically perhaps, the criticism of excessive bureaucratic control made by the Friedmans³³ is often a consequence of neoliberal practices to promote internal competition and legal procedures to counter corruption within government and international organisations.

As a theory of how economies should be coordinated, neoliberalism has faults. Economic forces have historically been crucial as a driver of development, but economic preferences and interests must be considered in relation to the political and the social. The fulfilment of individual wants does not address inequitable social outcomes that are a consequence of the unequal allocation of wealth, power and income. ‘Choice’ is always socially conditioned. The ownership of property historically has played a positive role in the development of trade and the rise of capitalism, it has also been a cause of wars. Since the second quarter of the twentieth century, the separation of ownership from control in the modern corporation has led to a strengthening of executives and a weakening of the mass of shareholders (though corporate owners remain significant). Consequently, neoliberal capitalism serves some people’s interests better than others. It seeks to fulfil consumer wants rather than addressing social needs which can only be calculated when non-economic values are considered. A catallaxy may lead to equilibrium which in many cases is optimal but in other cases may be

³³ Friedman and Friedman, *Free to Choose*. See discussion in Chapter 2 of this book.

sub-optimal and continue to be so for long periods of time. A market driven by possessive individualism does not calculate social and environmental costs.

During economic crises or depressions, countervailing economic forces have not stimulated a new equilibrium and this function has been assumed by the state. Rather than 'countervailing forces', the existing tendencies reinforce each other. Essentially, initial inequalities are amplified in a pattern of circular and cumulative causation.³⁴ In equilibrium economics, a negative change in the economic system will lead to a countervailing tendency to reverse the induced change. Hence, if a factory closes workers are made redundant, the conventional economist's response is that they will seek other work; if none is available, they will either start their own businesses or accept lower wages and hence attract investment, which will provide new employment. In this way a new equilibrium is attained. This does not always happen: countervailing forces do not equalise conditions. On the contrary, the system moves in the same direction. Social processes are cumulative: rich areas become more prosperous and poor ones become more impoverished. Foreign investment is not automatically attracted to areas of high unemployment. There is no stimulus for investment as the unemployed have low spending power, and the lack of economic demand leads to decline in retail trade. There are important social consequences: the mental and physical health of the unemployed suffers, they incur debts, and their family life disintegrates. If there is free movement of labour, workers move elsewhere hence changing the age and sex structure of the areas of origin, making the remaining labour force less viable.

The process of cumulative causation explains the persistence of 'depressed areas' within countries as well as the decline of many national economies. When liberal economic policies fail, the state intervenes to correct the imbalances created by the market. Neoliberal policies have led to the withdrawal of the state as supplier of comprehensive welfare without replacing it, consequently, social solidarity has weakened. The free movement of labour and capital has led to localised long-term levels of unemployment and underemployment of labour and the underutilisation of capital; migration of labour has caused social dislocations and severely disrupted communities. Catallaxies do not solve these imbalances. Competing and self-serving units often lead to social and political polarisation. The free and unregulated operation of markets may be challenged as not providing effective forms of coordination.

³⁴ Here I follow the reasoning of Gunnar Myrdal, *Economic Theory and Underdeveloped Regions*. London: Duckworth, 1957. The self-sustaining and cumulative process of inflation, which was particularly applicable to the post-socialist economies in the early years of transformation, has a similar effect.

The socialist alternative is of a social-welfare state based on the idea that all persons have social rights: to employment, to an occupation and to receive a comprehensive range of social services – to meet collectively their needs. What is not assured in the neoliberal paradigm is what state-regulated economies can provide – societies with comprehensive development plans, full employment, regular income and public provision of education and health services, free at the point of delivery.

Despite the destabilisation of the world economic system following the 2007 crisis, the thinking of the dominant elites is that modifications of financialisation, establishing effective regulation in the financial sector as well as retrenchment in state spending, can rectify the faults. Even critical economists have accepted much of the neoliberal competitive economic framework within which Keynesianism or post Keynesian policies could operate to manage capitalism.³⁵ A more effectively managed capitalism seems to be the answer favoured by radical Western economists³⁶ and major electoral political parties. Other criticism has come from islands of resistance (the anti-capitalism of ‘Occupy Wall St’ and later the Extinction Rebellion) far removed politically and institutionally from the centres of power.³⁷ (These are considered in [Chapter 12](#)).

As Colin Crouch put it, ‘The ... task today is ... *not* to explain why neoliberalism will die following its crisis, but the very opposite: how it comes about that neoliberalism is emerging from the financial collapse more politically powerful than ever’ [*italics in original*].³⁸ The answer, I think, is that an elite consensus accepts neoliberal suppositions. The mass media, major political parties, economic and social science academia are strongly influenced by the basic concepts of neoliberalism in its applications in the economic, political and social spheres. Adopted by regional organisations (such as the EU) and international institutions (such as the WTO and IMF) neoliberalism has become an unchallenged ideology with a global spread. Andrew Gamble concludes: ‘the main dispute in political economy in the modern era has been settled, and settled substantially in favour of neoliberalism ... [W]hile there certainly remain important choices between alternatives within this neoliberal

³⁵ See the editorial by Blankenburg and Palma, Introduction: The global financial crisis.

³⁶ J.G. Palma, The revenge of the market on the rentiers: Why neoliberal reports of the end of history turned out to be premature. *Cambridge Journal of Economics*, 33 (2009), pp 829–69, quotation p 867.

³⁷ John Holloway, *Crack Capitalism*. London: Pluto, 2010; Rogers, *Capitalism and Its Alternatives*.

³⁸ Colin Crouch, *The Strange Non-Death of Neoliberalism*. Cambridge UK and Malden, MA: Polity, 2011, p viii. Crouch has no solution to transcend neoliberalism, though he believes that civil society can modify and obtain better outcomes from a corporation dominated capitalism (see p x).

framework, few any longer make the argument that there are realistic choices between alternative frameworks'.³⁹ The neoliberal consensus sustains the view that competitive individualism gives people 'what they deserve'. It endorses a limited role for the state, it recommends the introduction of sounder financial procedures, a coherent competition policy, technology transfer, sustainable development, transparency, it proposes social diversity programmes, the promotion of equality of opportunity and a competitive democracy governed by law.⁴⁰ These conclusions are found to be somewhat overdetermined and invite a challenge.

In later chapters, we consider other options: alternatives to capitalism or alternative forms of capitalism. Alternatives need to consider the social and the political, and reassert the interests of society. One approach is a reversion to self-sustaining development, an increase in barter and networking, a revival of spontaneous democratic forms of association. The major alternatives share an assumption that the state should further a political and economic agenda in the public interest. To a greater or lesser extent these statist forms advocate the substitution of the spontaneity of market competitive catallaxies by collective forms of direction or planning, combined in different proportions with market forces. Statist alternatives may lead to different types of intervention, which is not, and has not always been, successful. A major objective of this book is to show where state intervention went wrong, and why it has been rejected in favour of neoliberal forms of capitalism. Before we turn to current alternatives, I consider in the next chapters how and why, in the twentieth century, state-managed economies failed. I discuss social democracy and socialism as the major twentieth-century challenges to capitalism: state socialism as it developed and then fell in central and Eastern Europe and social democracy, as it attained and then lost power, in Western Europe.

³⁹ Andrew Gamble, The Western ideology, *Government and Opposition*, 14:1 (2009), pp 1–19, quotation p 5.

⁴⁰ J.E. Stiglitz, More instruments and broader goals: Moving toward the post-Washington consensus. Annual lecture to WIDER (Helsinki), 1998. Available at: <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.471.9764&rep=rep1&type=pdf>

Index

A

academia 115, 161, 207, 211
Adaman, Fikrit 92, 93, 94
administrative officials 85, 141–2, 145–6,
149–50, 186, 270–1, 281
advertising 44, 70, 211
Afghanistan 101, 128, 140, 256
Africa 79, 175, 176, 180
agriculture 75, 212, 229, 238, 243, 274
Albo, Greg 11
alter-globalisation 200–1, 228–9, 248
Amable, Bruce 102n11
Amin, Samir 6, 273, 281–2, 283
anarchy 67, 217, 220, 235
anti-capitalism 55, 97, 199, 200, 220–33
anti-globalisation 11, 116, 199, 200, 216,
220, 223, 225, 227, 229, 231, 244–5
Arrighi, Giovanni 284
artificial intelligence 206, 214, 219, 292
Asselain, J.-C. 76, 86
austerity 51, 106, 123, 137, 230, 240, 255
authoritarianism 30, 37, 40, 116, 136,
179, 227
autocracy 8, 13, 268, 284
automation 182, 206, 214, 219, 225,
259, 292
autonomous self-sustaining economies 7, 14,
200, 212, 216–8, 221, 229, 231, 244, 257,
287, 290
autonomy in civil society 25, 26, 29, 39,
69, 70

B

bail-outs 34, 50–1, 130
Bank of England 99, 129
banking sector 49, 50, 51, 130, 196,
251, 275
see also financial sector
bankruptcies 133, 136
Barlow, Nathan 244
barter economies 37, 56, 225, 228, 243
basic income 219
Bastani, Aaron 206
Bauman, Zygmund 95

Bell, Daniel 5, 157, 202, 212, 285
Benn, Tony 106
Bentham, Jeremy 66
Bernanke, Ben 35
Bernstein, Steven 243
Better Business Act Campaign 298
Beveridge, William 98
Biden, Joe 9, 40, 197, 249
Big Society 135
BIS (Bank for International Settlements) 180,
186, 251
Blair, Tony 27, 100, 101, 112, 116, 124–30,
132, 135–7, 140, 147, 249, 250
Bodrunov, Sergei 290
Bohemian index 205n18
bonuses 49, 143, 181
boom/slump cycles 35, 45, 68, 82–3,
102, 108
bourgeoisie 80, 90, 159, 185, 187, 208, 214,
270, 281, 293, 299
Brand, Russell 221, 222, 223, 225, 231
Brazil 170, 171, 172, 175, 266
Brenner, Robert 269
Brexit 94, 138, 251, 288
BRICS (Brazil, Russia, India, China, South
Africa) 189–90, 192, 195, 305
Brown, Gordon 124, 126–7, 129–30, 132,
135, 250–1
Brzezinski, Zbigniew 180
Bulgaria 81, 82, 83, 84
bureaucracy
China 280–1
exploitation of economic surplus 269, 270
global capitalist class 147
hierarchy 84
participatory socialist planning 92
party-state formation in state socialism 80,
83, 91, 150
planning 70, 295
regulated market socialism 299
regulatory role of the state 36–7, 38–9, 40
semi-core 189
socialism 152
state-capitalism 268, 270–1
welfare state 118

- Bush, George 147, 197
 Buzgalin, Alexander 5, 202, 204, 206, 208
- C**
- Cahill, D. 19–20
 Calhoun, Craig 4, 7–8
 Callaghan, James 105–6
 Callinicos, Alex 259, 260
 Cameron, David 135
 campaigning 253, 255
 capital flows 2, 45, 54, 159–60, 162, 182, 209, 249–50, 261
 carbon emissions 203–4, 235, 236, 237–40
 Carr, E.H. 78
 Case, Anne 246
 Castells, Manuel 202, 207, 224, 226, 229–30, 243, 260
 catallaxy
 collateral costs of 45
 in free markets 25, 26, 32, 36, 37, 42, 53–4
 and the fulfillment of wants 44–6
 participatory socialist planning 92–3
 versus socialist planning 68
 Soviet Union 150
 central banks 34, 99
 Chang, Ha-Joon 7
 Chen Yun 274
 China
 carbon emissions 239
 communism 64, 154, 274, 280, 282, 283–4
 cultural globalisation 171, 172, 174
 economic growth 83, 175, 176, 190, 192, 274, 281
 environmental issues 238, 241, 242–3
 foreign direct investment (FDI) 164
 future scenarios 283–4
 geo-political power 188
 globalisation 168–9, 170, 178–82, 191, 261–2, 280
 glocalisation 174
 hegemonic power 188, 192, 305
 Human Development Index (HDI) 193
 income differentials 192–3
 industrialisation 243
 interpersonal globalisation 171–2
 liberalisation 42, 95, 274, 282, 283
 multinational corporations (MNCs) 185
 outsourcing 164
 sanctions 196, 198, 284
 as ‘semi-core’ 188–9
 social class restructuring 187
 socialism 79, 291
 socialist market economy 273–4
 state capitalisms 8–9, 11, 273–84
 state monopolies 40
 state-capitalism 268, 278–83
 state-controlled capitalism 210, 281–4, 291
 transition to capitalism 154
 transnational corporations 165, 185
 and USA 181, 194, 284
 Chinese-sponsored Development Bank 263, 305
 Chirot, Daniel 8
 choice 34, 43, 44, 52, 53, 120, 135, 162
 Chomsky, Noam 222, 223–4
 Christianity 60
 citizenship 120, 158, 184, 288
 civil liberties 135
 civil rights 231
 civil society
 autonomy in civil society 25, 26, 29, 39, 69, 70
 corporate social responsibility (CSR) 255
 identity politics 121
 neoliberalism 23, 30–1
 pluralism 292
 self-governing associations 93
 state socialism 69
 transnational corporations 249
 civilisational alternatives 190, 198, 235, 238, 242–3, 245, 303
 Clark, T.J. 9
 classical liberalism 19, 20–1, 25, 28, 36
 classless society 59, 91
 Cliff, Tony 269
 climate change 6, 206, 239–41
 CNN 173
 Cockshott, W.P. 67n27, 296
 coercion 72, 78, 92, 94
 Collaborative Commons 205
 collective decision-making 66
 collective ownership 29, 60, 61, 89, 135, 206, 276–7, 287, 292, 301
 collective production 219
 Collective Security Treaty Organisation 190–1
 collectivities 27, 52, 216, 221, 232, 254
 Collins, Randall 6, 10
 colonialism 158, 172, 266
 Commonwealth of Independent States (CIS) 151, 153
 communism
 as an alternative 8
 China 64, 154, 274, 280, 282, 283–4
 class structures 144
 FALC (Fully Automated Luxury Communism) 206, 212, 290
 organising principles 103
 reform 140–1, 151
 socialism 60, 64, 139, 140, 267
 Soviet Union 75, 79, 150–1
 state capitalism 272
 state socialism 267
 state-capitalism 270
 state-controlled capitalism 273
 in Western Europe 97

- community economy 228
 company charters 298
 comparative approaches 14
 competition 24–6, 30, 36, 51, 52, 93, 102, 104, 119, 185–6
 competitive interdependence 189–95
 Comte, Auguste 119
 conflicts of interests 85
 conservatism 62, 108–10, 201
 constrained problem solvers 214
 consumer demand 85, 89
 consumer individualism 119, 174
 consumer spending increases 132
 consumerism 186, 189, 212, 229, 243–5, 257–8, 264, 287, 294
 convivial de-growth 244–5
 cooperation 64, 72, 221, 244, 260, 291
 cooperative enterprise 277
 coordinated welfarist economies 96
 COP meetings 237–8
 Corbyn, Jeremy 11, 124, 136–8, 229, 251–2, 303
 corporate class 186
 corporate social responsibility (CSR) 247, 253–6, 258, 298
 corporations as neoliberal institutions 45, 47–9, 50, 70
 corruption 72, 84–5, 295
 cosmopolitanism 159, 257
 Cottrell, A. 67n27, 296
 counter-revolution 141–5
 COVID-19 169, 174, 184, 196, 198, 250, 264
 creative class 187, 203–8, 213, 214
 creatosphere 206, 207, 211, 212
 credentialism 152
 credit facilities 51, 132, 133, 297
 Crosland, C.A.R. 116, 117
 Crouch, Colin 55, 197, 247, 248–9, 250, 252, 261, 264
 culture
 cultural capital 185
 cultural globalisation 167, 170–1, 172, 174, 186, 207
 culture-ideology of consumerism 257–8
 as focus of sociology 117–8
 national economies 158
 Sino-capitalism 280
 state socialism 143
 ‘Third Way’ social democracy 118–9, 121, 123
 transnational culture 160
 Western influence 264
 Czechoslovakia 79, 82, 83, 84, 143, 146
- D**
- Dahl, Robert 248, 304
 Davos World Forum 186, 191n14, 261
 Deaton, Angus 246
 debt 34, 50, 51, 106, 132, 133, 194
 decentralisation 60, 200, 215, 221, 228, 235, 258, 260, 297
 de-colonisation 181
 de-development 295
 deglobalisation 181, 195–6
 de-growth 235, 240, 244–5
 deindustrialisation 52, 113, 117, 192
 democracy
 anti-capitalism 221–2, 223–4
 versus autocracies 289
 coercion 94
 democratic socialism 125
 direct action 260–1
 environmental issues 240
 equality on basis of need 44
 gestural 225
 global democracy 247–9
 globalisation 179, 181, 182, 246, 263–4
 globalised social democracy 201
 laws limiting 31
 liberty–equality tension 285
 nation states 184
 networked society 244
 participatory socialist planning 92
 people’s form of 228, 229
 regulated market socialism 292
 social consensus 94
 and socialism generally 15, 60–1, 89
 Soviet Union 141
 state socialism 69, 80
 ‘Third Way’ social democracy 115
 transition to capitalism 153
 transnational corporations 166
- democratisation 149–50
 denationalisation 101–2
 Deng Xiaoping 273
 Denmark 11, 102n11, 214
 deregulation 21, 124, 125, 129–30, 133, 136
 Derluigan, Georgi 4, 7–8
 developmental economics 47
 developmental peace 305
 developmental states 264
 Devine, Pat 92, 93, 94
 Diaspora* 211
 Dickson, Bruce 281
 digital technology 163, 171, 211, 215, 225, 226, 243–4
 direct action 219, 222, 231, 260–1
see also protest
 discrimination 26, 120, 121, 123, 172–3
 distribution
 China 274, 275
 redistribution away from wage labour 132
 regulated market socialism 294
 relational versus distributive equality 62, 64
 social welfare aims 43
 Soviet state socialist planning 76n5
 states’ role in redistribution 204, 297

- wealth distribution 43, 134, 179, 181, 292, 293
- diversity promotion 26–7, 65, 116–20, 123, 135, 173, 205n18, 223
- division of labour 63, 64–5, 117, 179, 181, 182, 231
- Dobb, Maurice 67
- Dumenil, Gerard 34
- Dunayevskaya, Raya 269
- Durkheim, Emile 29, 62, 63, 64, 119
- E**
- Eastern Europe 79, 81, 82, 95, 113, 148–9, 151, 268–70
- ecological civilisation 242–3
- economic growth
 - BRICS (Brazil, Russia, India, China, South Africa) 190
 - China 83, 175, 176, 190, 192, 274, 281
 - creative class 205
 - environmental costs 235, 238
 - globalisation 175
 - inequalities 133
 - as key element of neoliberalism 41
 - New Labour (UK) 128
 - socialism 79
 - state socialism 82–3
 - UK in 1980s 110
- economic liberalism 22, 23, 34, 51, 52
- economic nationalism 166
- Edgerton, David 263
- education 41, 75–6, 78, 81, 128, 144–5, 224
- efficiency 39, 52, 85, 86–7, 100, 165
- electoral politics
 - anti-capitalism 221
 - globalisation 184
 - as key element of neoliberalism 31
 - market economies 69, 79
 - regulated market socialism 294
 - social democracy 60, 96–8, 108, 112, 113, 252
 - state socialism 153
 - support for public ownership 303
 - ‘Third Way’ 122, 124, 135, 136, 137–8
 - trumped by economic power 255
- elite class
 - China 280
 - creative class/creatosphere 187, 203–8, 211–4
 - deciding on ‘wants’ and ‘needs’ 240
 - in definition of neoliberalism 19
 - diversity promotion 173
 - idle rich 49
 - leftist neoliberalism 122–4
 - neoliberalism post-2007 55
 - power elites 256
 - semi-core 185–7
 - since 2007/8 recession 261
 - social democracy 135, 249
- Soviet Union 81, 144
- state socialism 142, 145–6, 149
- state-capitalism 270–1
- transnational corporations 166
 - see also executives/professionals
- emancipatory socialism 10, 64
- energy crisis 4, 264, 299, 301
- energy sector 110, 128, 195–7, 202, 230, 237–8, 240–1, 301, 302
- Engels, Friedrich 5, 13, 63, 64n17, 65, 66–7, 159, 289
- entrepreneurship 49, 92, 105, 117, 205
- environmental issues 234–45
 - anti-capitalism 220
 - anti-globalisation 200
 - corporate social responsibility (CSR) 253
 - global scale of solutions 233
 - globalisation 162, 182, 257
 - re-evaluation of planning 297
 - regulated market socialism 306–7
 - self-sufficiency 290
 - social democracy 248
 - socialism 70
 - socialist globalisation 257
 - state role in 184
 - state socialism 69
 - sustainability 230–1
 - ‘Third Way’ 118
- equality 59, 61, 62, 69, 76, 100, 103, 143
 - see also inequalities
- equality of opportunity 28, 44, 49, 65, 117, 123, 135
- equilibrium 24, 44–5, 46–7, 53–4, 296
- Eurasian Economic Union 183, 188–9, 190–1, 305
- European Bank of Reconstruction and Development 23, 32, 186
- European Union (EU)
 - Brexit 94, 138, 251, 288
 - carbon emissions 239
 - democracy 94
 - economic growth 175, 190
 - enlargement policy 194
 - EU Social Chapter 129
 - global class structure 183, 188
 - globalisation 172
 - hegemonic power 192
 - neoliberalism 250
 - New Labour (UK) 107
 - pooled sovereignty 249
 - social democratic parties 250
 - ‘Third Way’ social democracy 127, 135, 138
- European Working Conditions Survey 214
- exchange rates 99, 105, 109
- exchange values 66, 204
- executives/professionals
 - China 281
 - executive salaries 76, 132, 134, 295

- global class structure 185–7
 globalisation 179, 181, 186
 New Labour (UK) 134
 regulated market socialism 295
 social democracy 112
 state socialism 85–6, 142, 147, 152
 state–capitalism 270–1
 twenty–first century socialism 299
see also ‘service’ class
- exploitation
 and the collapse of capitalism 289
 concepts of capitalism 18, 224
 identity politics 121
 of nature 241
 by political class/elite 271
 regulated market socialism 293
 socialism 63–5, 153
 state socialism 80
 state–capitalism 269, 270
- exports 50, 109, 167, 169–70, 171, 193, 196
 ex–post market systems 69, 72
 Extinction Rebellion 55, 231, 238, 255, 261
- F**
- Fabians 61
 Facebook 211
 FALC (Fully Automated Luxury
 Communism) 206, 212, 290
 federal structures 75, 79, 94
 feminism 121
 financial sector 34, 50, 124, 129–30, 133,
 250–1, 275
see also banking sector
Financial Times 9
 financialisation 21, 24, 27, 33–5, 55, 125,
 133, 162, 207, 211, 230
 Finland 97, 102n11
 Florida, Richard 202, 204–5, 212
 food security 221, 238
 Foot, Michael 106, 107
 football 212
 Forbes List 190, 191
 foreign direct investment (FDI) 162, 163–5,
 263, 275–6
 foreign policy 106–7, 125, 127–8, 256, 284
 Foster, John Bellamy 241
 Foucault, Michel 23, 26, 36–7, 38
 France 97, 133, 165, 192, 282
 Fraser Institute 23
 free establishment 159, 163
 free movement of labour 2, 54, 130, 135,
 160, 166–7, 172, 209, 249–50
 ‘free service’ 212
 free trade 163–4, 179, 181
 freedom 21, 28, 31, 32, 42, 44, 59, 65, 117
 Freedom House 23, 24
 freedom indexes 23
 freedom of information 129
 freedom of opportunity 49
- Friedman, Milton 12, 20, 22, 23, 28, 30,
 35–6, 37–8, 40, 53, 253–4, 260
 Friedman, Rose 23, 30, 37, 38, 53
 Friedman, Tom 179
 friendoutsourcing/friendshoring 182
 Fuchs, Christian 211, 224, 227
 Fukuyama, Francis 29, 285
 full employment 80, 87, 99
- G**
- G7 (Group of Seven) 210, 250, 256
 Galbraith, J.K. 5, 157, 289
 Gamble, Andrew 55
 geographical mobility 171–2
see also migration
 geo–politics 165–6, 180, 187, 188, 196,
 197, 198
 German Democratic Republic 79, 146
 Germany 82, 97, 133, 164, 165, 184, 192,
 214, 239, 282
 Gerschenkron, Alexander 77–81
 Gerstle, Gary 9
 Gibson–Graham, J.K. 7, 228
 Giddens, Tony 118, 126
 Gilbert, Simon 279–80
 Gini coefficient 133, 134
 Gjolberg, Maria 255
 glasnost 141, 146
 global asset managers 299
 global capitalist class 147, 149, 183–98, 210,
 250–1, 257
 Global Carbon Budget Project 239
 global democracy 247–9
 global economic crisis (2007/2008) 2, 34,
 35, 49–51, 55, 175–6, 261, 299, 301
 global economy, development of 164–7
 Global Financial Stability Report (IMF) 50
 global neoliberalism, defined 18–41
 global political class 187, 188
 global value chains 160, 169–70
 globalisation
 capitalist versus socialist 258
 changing class structures 183–98
 China 280
 citizenship 288
 competition 52
 corporate social responsibility (CSR) 254
 as development of capitalism 113, 159–82
 differentiated from capitalism 12
 elite opinions on benefits of 261
 foreign policy 127
 information/knowledge societies 204–8
 neoliberal social system 32–3
 neoliberal versus Chinese 262
 and neoliberalism 21
 New Labour (UK) 129–30
 regulated market socialism 304–5
 social democracy 246, 251
 socialist globalisation 256–60

globalised capitalism 163
 globalised social democracy 247–50
 globalised socialism 201
 globalising professionals 186
 glocalisation 173–4, 181
 Goldthorpe, John 142
 Google 211
 Gorbachev, Mikhail 140–1, 145, 147–8,
 149–50
 Gosplan (Soviet state planning
 commission) 75
 Gouldner, Alvin 270
 governmentality 23, 26, 36–7, 38
 Gray, John 173
 Greece 97, 255
 green agenda 182, 221, 230, 237, 242
 ‘green’ capitalism 241
 Green New Deal 240–1
 Greenspan, Alan 32, 41

H

Hall, Stuart 118–9, 120
 happiness/wellbeing 52, 118, 259
 Hardt, Michael 215, 217, 291
 Harman, Chris 89n25
 Harris, Jerry 165
 Harvey, David 8–9, 230, 281–2
 Hayek, Friedrich von 20, 22, 26, 27, 28, 31,
 33, 36, 37, 39, 44, 46, 47, 51, 52, 68, 78,
 87, 296
 health and safety 135
 health provision 47, 101, 106, 124, 128
 Heath, Edward 105
 hedge funds 49
 hegemonic power
 China 188, 192, 305
 global class structure 180, 182
 global economy 165
 neoliberalism 45
 overturning capitalism’s 217
 regionalism as strength against 191
 regulated market socialism 304
 socialism 71, 79, 91
 USA 106, 184, 188, 193, 197, 249,
 283–4, 288
 Held, David 120, 160, 246, 250,
 261, 264
 hierarchy 13, 67–72, 75, 78, 84, 103, 200,
 212, 215
 historical materialism 64, 121, 152, 216,
 228, 231
 holistic knowledge 44
 Holloway, John 217, 218
 Holmes, Leslie 84n15
 Human Development Index (HDI) 193
 Human Freedom Index (Cato and Fraser
 Institute) 23–4
 human rights 59, 116, 129, 141, 257
 humanitarian concerns 127

Hungary 81, 82, 83, 84, 143, 146, 151, 214
 Hutton, Will 298, 306

I

identity 116–23, 125, 217, 223, 288
 ideology
 British Labour Party 101
 consumerism 212
 counter-ideologies 289
 ideological professional class 186, 198
 leftist neoliberalism 118–20
 opponents of capitalism 200
 popular consumerism 185–6
 socialism 60, 79
 IKEA 167, 171
 Illesy, Miklos 213–4
 IMF (International Monetary Fund)
 global capitalism 251
 global economic crisis (2007/2008) 50
 globalisation 161, 180
 international executives 185
 neoliberal conservatism 109
 reform 261
 rule of law 32
 social democracy 104, 106, 113
 socialism 62
 Soviet Union 147, 149
 immigrant labour 134, 135, 213
 incentives to work 49
 income differentials
 globalisation 174–9, 181, 185
 New Labour (UK) 130, 132–5
 semi-core 192–3
 social democracy 103
 socialism 60, 86
 Soviet Union 48, 76, 143
 UK post-war 100
 India 187, 192, 196, 238, 239
 individual behaviours (psychological
 subjectivism) 43–4
 individualism
 in catallactic exchanges 45
 class expressed through identity 118
 versus collectivism 71
 consumerism 287
 democratic individualism 119
 economic liberalism 22
 neoliberalism 27–30, 51
 regulated market socialism 294
 within socialism 71–2
 ‘what people deserve’ 28, 42, 53, 56, 303–4
 individual’s role in neoliberalism 24–5, 27–30
 industrial disputes 105, 109
 industrialisation 77–8, 81, 85–6, 239
 industrialism 200, 229, 241
 inequalities
 China 281
 circular amplification of 54
 distributive inequality 62, 64

- environmental issues 239–40
 Gini coefficient 133, 134
 globalisation 174–9, 181
 leftist neoliberalism 119
 liberalism 28
 in neoliberalism 26
 New Labour (UK) 130–2
 Occupy movement 222, 224
 psychological subjectivism 43
 regulated market socialism 306
 relational versus distributive equality 64
 and social class 122
 and socialism 62–3, 65
 Soviet state socialist planning 76
 unequal income and wealth 43–4
 wealth distribution 48
see also *income differentials*
 inflation 104, 105, 106, 108, 110, 150
 info-capitalism 226
 information asymmetries 44–5, 86, 203
 informational globalisation 170–1
 information/knowledge societies 157–8,
 202, 203–8, 224
 inheritance 28, 48, 49, 63, 142, 294, 306
 innovation 49, 69, 88, 194, 206, 293, 295
 insurance companies 50
 intellectual property 157, 171, 207, 295–6
 intelligentsia 78, 81, 143
 interdependence 161, 167, 169, 171, 174,
 189, 284
 International Chambers of Commerce 186
 international institutions 2, 25, 55, 62, 113,
 180, 210, 249, 257, 288
see also *individual institutions*
 international law 247, 251, 280, 300
 international relations 149, 248
 international trade 32–3, 169, 197
 internationalisation 159, 160, 174, 181, 182,
 247, 262, 264, 305
 internet 163, 171, 202, 207, 225, 226–7, 243
 interpersonal globalisation 171–3
 intersectionality 120, 121
 interventionist foreign policies 125, 127–8
 investment
 British Labour Party policies 107
 China 275
 foreign direct investment (FDI) 162, 163–5,
 263, 275–6
 long-term investment in capitalism 68
 Private Finance Initiative 136
 regulated market socialism 294, 295
 rise of neoliberal conservatism 109
 socialist globalisation 263
 state socialism 68
 state-led investment 47
 stimuluses for 54
 transnational corporations 162, 166–7
 UK in 1970s 105
 ‘invisible hand’ 26, 42, 83
 IPCC (Intergovernmental Panel on Climate
 Change) 236
 Iraq 101, 128, 135
 Italy 97, 133
J
 Jablonowski, Mark 297
 Jacques, Martin 120
 Janeway, William 47
 Japan 165, 170, 188, 190, 194, 195, 239
 Jenkins, Roy 62
 job insecurity 122, 134, 211
K
 Kaufman, Gerald 107
 Kautsky, Karl 299
 Kazakhstan 164
 Kerr, Clark 157
 Keynes, John Maynard/Keynesianism 5, 34,
 46, 55, 99, 102, 105, 263
 Khrushchev, Nikita 82, 147
 Kissinger, Henry 184
 Knell, Mark 282
 Knight, Frank H. 28
 knowledge societies 157–8, 202, 203–8, 224
 KOF index 167–9, 170
 Kolganov, Andrey 5, 204, 206, 208
 Konings, M. 19–20
 Koonin, Steven E. 236
 Kornai, János 86
 Kuhn, Berthold 243
 Kurlantzick, Joshua 266
L
 labour laws 46
 labour markets
 China 280, 282
 creative class 205
 division of labour 63, 64–5, 117, 179, 181,
 182, 231
 free movement of labour 2, 54, 130, 135,
 160, 166–7, 172, 209, 249–50
 globalisation 162
 labour productivity 85–6, 105, 130
 labour shortages 86, 87
 migration 45
 neoliberal effects on 122–3, 213
 occupational structure 116–7, 134,
 141, 213
 precariat 213
 Soviet state socialist planning 76
 state socialism 69, 85–6, 87
 state-capitalism 269
 transnational corporations 52, 166–7
 Labour Party (UK) 11, 96–114, 250–1, 303
 Laclau, Ernesto 216
 Lakner, Christopher 178
 Lange, Oskar 90, 91, 292
 Lansley, Stewart 132, 134

- Latin America 40, 42, 149, 180, 182, 191
 Latvia 214
 Leadbeater, Charles 119
 left modernity 219
 left neoliberalism 115–38
 left-wing politics, definition 116
 Lehman Brothers 2, 35, 50
 leisure industries 76n5
 Lenin, Vladimir 62–3, 98, 150, 215, 216,
 271–4, 281
 Lenski, Gerhard 48
 levelling up 143
 Levy, Dominique 34
 Leys, Colin 10, 252
 liberal-democratic ideals 59
 liberalisation 19, 166
 liberalism 20–1, 22–4, 126, 243
 liquidity 50
 literacy 74–5, 78
 living standards, rising 41, 81–2, 132, 133,
 161, 181, 241
 localisation 200, 260
 London Consensus 250–1
 low-paid jobs 122, 134, 211, 213
- M**
- Macmillan, Harold 105, 125
 Major, John 108, 130
 Mako, Csaba 213–4
 Mandel, Ernest 92, 270, 271
 Mann, Michael 6
 manual workers 3, 76, 111–2, 135, 144, 152,
 157, 178, 182, 214
 manufacturing 81, 109, 117, 129, 161, 192,
 196, 212, 295
 ‘market rewards’ 304
 market socialism 13, 14, 74–95
see also regulated market socialism
 marketisation 25, 37, 47, 53, 112, 125, 149,
 151–2, 180, 274
 markets
 China 274–5
 and competition 51–2
 competitive interdependence 189
 counterbalancing states 91
 curtailing of 247–8
 environmental issues 237–8
 financialisation 34
 globalisation 162
 grafting onto central socialist
 planning 89, 90–1
 inability to resolve economic crises 51
 inequalities 43–4
 information/knowledge societies 204, 211
 irrationality of 68
 Lenin’s state capitalism 272
 market-type exchanges of non-economic
 behaviour 27
 in neoliberalism 20–1, 23, 26
 ‘no alternative’ to 122, 136
 organising principles 103
 post-capitalism 209
 property markets 43
 regulated market socialism 285–307
 and the rule of law 30–2
 self-regulating markets 37–9
 shifting to de-centralised networks 200
 social distribution 43
 state socialism moving to 139–54
 suppressed in wartime 99
 Marshall, Alfred 24
 Marx, Karl 5, 6, 13, 18, 62, 63, 64–5, 89,
 152, 153, 159, 162, 206, 212
 Marxism 60–6, 75, 215–8, 234–5, 241, 266,
 268–70
 Mason, Paul 202–4, 208, 225, 226, 230, 232
 MccGwire, Michael 148
 McDonald’s 167, 171, 173, 179, 184
 McGrew, Antony 160
 McNally, Christopher 280
 media
 anti-Corbyn 138
 China 284
 consumerism 186
 creation of wants through 70
 cultural and informational
 globalisation 170–1
 electoral politics 113, 147
 elite class 6, 13, 211
 globalisation 160, 173
 ideological professional class 186
 information/knowledge societies 211
 Labour Party (UK) 99, 109
 mass sporting events 212
 neoliberalism 55
 post-capitalism 211
 progressivism 116
 regulated market socialism 300, 307
 Soviet Union 78
 stakeholder control 259
 ‘Third Way’ 115
 transnational corporations 166
 MERCOSUR 191
 mergers and acquisitions 165, 209–10,
 298–9
 merit 63, 76
 Michel, Robert 215
 middle classes
 anti-capitalism 223
 Asia-Pacific area 176
 diversity promotion 123
 ‘emerging global’ 178–9
 globalisation 181–2
 Labour Party (UK) 111–2
 Occupy movement 224
 socialism 81–2
 Soviet Union 142, 143–4, 145–6
 state socialism 76

- middle-income jobs 134
 migration 45, 160, 171, 172, 184
 Milanovic, Branco 8–9, 178, 280–1, 283, 284
 Mill, John Stuart 60, 61
 Miller, David 90–1, 301
 Mills, C.W. 256
 minimum wages 128, 134
 modernisation 81–4, 88
 Mondragon 228
 monetarisation 207
 monopolies 30, 51–2, 99, 295–6
 Monticelli, Lara 221, 225
 morality 28–9, 304
 Morris, William 61–2
 Morrison, Herbert 100–1
 Mosca, Gateano 271
 multilateralism 248
 multinational corporations (MNCs) 162, 169–70, 179, 180, 183–5, 189, 191, 207–8
see also transnational corporations (TNCs)
 multitude as revolutionary actor 215–6
 mutuality 64, 70, 235
- N**
- NAFTA 190
 national corporatism 264
 National Equality Panel 133
 National Health Service (UK) 101, 106, 124, 128, 301
 nationalisation 99, 100–1, 106, 109, 138, 293, 298, 300–3
 nationalism 116, 166, 183, 248, 263
 NATO (North Atlantic Treaty Organization) 101, 107, 138, 141, 174, 188, 190, 195–6, 197, 210, 256
see also Ukraine/NATO–Russia war
 negotiated coordination 92–3
 Negri, Antonio 215, 216, 217, 291
 neoliberal governability 37
 neoliberalism
 critique of 41–56
 defined 12–4, 19–20
 economic basis of 20–2, 25
 individual and society 27–30
 legal institutions 25
 as ‘new social order’ 34
 political institutions 25
 psychological basis 24, 25, 43–4, 51
 social system 32–3
 societal components of 25
 stability and progress 24–7
 as theory of society 22
 Netherlands 170
 Nettle, Peter 78
 networked society 226–9, 230, 231, 232, 244, 260
 networked youth 214–5
 networks 204, 205, 225
 New Labour parties 10–1, 214–5
 New Labour (UK) 27, 112, 116, 124–7, 250–1
 New Member States (NMS) 153
 New Right 110
 New Spirit of Capitalism 113
 NGOs (nongovernmental organisations) 248, 249
 Ning Wang 174
 nomenclatura system of appointments 151, 271
 non-consumptionist economy 243–5
 non-economic capitals 118
 non-market transactions 211, 228, 255
 Northern Rock 2, 35, 50
 Norway 193, 266
 not for profit social enterprises 204, 211
 Nove, Alec 296
 nuclear weapons 107, 127, 152
- O**
- Obama, Barack 27, 224, 249
 Occupy movement 55, 222–6, 229–30, 231
 OECD (Organisation for Economic Co-operation and Development) 104
 off-shoring 160
 oil 110, 128, 197
see also energy sector
 oligarchy 51, 153, 212, 215, 300, 305, 307
 oligopolies 52, 258
 One Nation conservatives 105, 109, 110, 125, 135
 open Marxist position 215
 oppression 78, 121, 123, 152–3, 209
 Organisation of Central Asian Cooperation 190–1
 Ortiz-Espena, E. 176, 177
 outsourcing 45, 46, 122, 134, 136, 160, 161, 164, 178, 182
 over-consumption 70, 76n5
 Owen, Robert 229
- P**
- Panitch, Leo 10, 11, 252
 Pareto optimality 46–7
 Parkin, Frank 143–4
 parliamentary democracy 135
 parliamentary socialism 97, 98–9, 113, 299–300
 partial planning 204
 participatory democracy 64, 84, 231, 257
 participatory socialist planning 91–5
 patriarchy 123, 152
 peace 80, 96, 102, 116, 166, 179, 248, 284
 perestroika 140–1, 147, 150
 Pew Research Center 230
 Phillips, Leigh 296
 Pierson, Christopher 306

- Piketty, Thomas 213
- planning
- China 275
 - computer technology 296–7
 - criticisms/failures of 70, 78, 84–8
 - embedding in society 71–2
 - justification of a planned economy 68–71
 - versus networks 204
 - partial planning 204
 - participatory socialist planning 91–5
 - post-capitalism 233
 - radical reform on 145–7
 - re-evaluation of 294–598
 - regulated market socialism 292, 294–598
 - seen as harmful 52
 - socialist coordinated economies 259–60
 - Soviet state socialist planning 74–7
 - state socialism 65–8, 286
 - theory of 13, 29, 66–8
 - wealth distribution 48
- pluralism
- anti-capitalism 228
 - anti-globalisation 223
 - global neoliberalism 29–30, 33
 - market socialism 90–1
 - participatory socialist planning 94–5
 - perestroika 141
 - pluralistic elites 122–4
 - regulated market socialism 292, 305
 - social democracy 103
 - socialism 60, 79, 84
 - socialist globalisation 257
 - Soviet Union 150
 - transition to capitalism 153
- Poland 82, 83, 84, 143, 146, 151
- Polanyi, Karl 4, 234
- politics
- geo-politics 165–6, 180, 187, 188, 196, 197, 198
 - international institutions 288
 - market socialism 90
 - nation states 184
 - neoliberalism as political project 110
 - Occupy movement 222–3, 224–5
 - political capitalism 18, 255, 257, 266, 271, 280–1, 284
 - political globalisation 167, 168, 169, 179
 - political institutions 25, 30–2, 72, 78, 79, 83
 - political mobilisation 260–1
 - political movements 60–1, 64
 - presidential-style politics 125
 - social democracy 103
 - transition to capitalism 153
 - twenty-first century capitalism 288
 - twenty-first century socialism 303–4
 - see also* electoral politics
- Pollock, Allyson 126–7
- pollution 39, 46, 70, 162, 239–40, 242, 245, 253
- Popper, Karl 27
- populism 8–9, 11, 116, 122, 179, 227, 264, 300
- post-capitalism 4–5, 117, 199–219, 230–2, 289–90, 298
- post-global society 199
- post-industrial capitalism 112–3, 157–8, 161, 164–5, 187, 202–3, 213, 215, 219, 290–2
- post-market relations 208–9
- Postone, M. 269
- post-scarcity economy 65, 206
- post-socialism 117, 151–2, 153–4, 164, 166, 180, 295
- poverty 69, 176, 181, 239–40
- see also* inequalities
- power
- China 283–4
 - corruption 85
 - decentralised networks 221
 - deglobalisation 196–7
 - and exploitation 153
 - global institutions 249
 - globalisation 256
 - legitimate use of 94
 - nation states 184
 - organisational power 152
 - party-state formation in state socialism 80, 83, 91, 150
 - planning hides political power 78
 - political power in neoliberalism 51–2
 - power elites 256
 - ruling classes 185
 - socialism 76–7
 - state power in post-capitalism 209
 - state socialism 67
 - transnational corporations 165, 166, 197
 - and wealth holdings 48
 - see also* hegemonic power
- precariat 213, 223, 224, 231
- presidential-style politics 125
- price mechanisms 85, 87, 99, 203, 296
- Private Finance Initiative 136
- private property
- China 277–8
 - Lenin's state capitalism 272
 - liberalism 28
 - ownership and control 47–9
 - versus possessions 75
 - post-capitalism 208
 - regulated market socialism 293
 - role of the state 35–6
 - socialism 64
 - Soviet Union 142, 145–6
 - state socialism 67, 80
- privatisation 124, 140, 151, 180, 209, 281, 295, 301
- professional classes *see* executives/
professionals

- profit
 China 282
 in definition of capitalism 18, 254
 economic liberalism 23
 financialisation 34–5
 global economic crisis 2008 51
 globalisation 162
 information/knowledge societies 206, 207, 211
 Lenin's state capitalism 272
 moving away from 253
 ownership of means of production 211
 regulated market socialism 293, 294
 share-holder accountability 49, 253–4
 social democracy 103
 state socialism 69, 86
 transnational corporations 166–7
 wage differentials 132
see also surplus value
- progressive ideologies 101, 116, 122, 134
 property rights 211, 231, 270, 300
 protest 216, 222–7, 229, 231, 238–41, 254, 255, 261
 psychological subjectivism 43–4
 public good 61, 254, 255
 public ownership
 New Labour (UK) 124–5
 private finance 126–7, 136
 public support for 301–2
 regulated market socialism 293, 298, 299–302, 306
 socialism 59, 61
 state property 209
 state socialism 67
 UK post-war 99–102
 public sector employment 132, 299
 Putin, Vladimir 174, 197, 256
- Q**
 quality of goods/services 84, 85
- R**
 racism 172–3
 radical democratic egalitarianism 10
 rationality 65–6, 68, 69, 70, 72, 87, 184
 Reagan, Ronald 22
 redistribution 49, 204, 208, 304
 reflexivity 119
 refugees 128
 regional associations/blocs 183, 188, 189, 190–1, 194, 196–7, 198, 264
see also European Union (EU)
 regionalisation 170, 180, 191, 249, 264
 regulated market socialism 285–307, 310
 regulation
 of companies 204
 corporate social responsibility (CSR) 255
 ex-post market systems 70
 financial sector 34, 51, 55, 129
 international institutions 251
 international regulation 209
 promotion of competition 37
 role of the state 35–7
 self-regulating markets 37–9
 social democracy as regulation of
 globalisation 247–50
 transnational corporations 166
 re-industrialisation 294
 Renner, Karl 142
 rents 69, 86, 87, 185, 293, 299
 republics 75, 94
 research and development 295
see also innovation
 Resnich, Stephen 269
 resource scarcity 86, 206
 reverse globalisation 195–8
 'reward for enterprise' 286, 287, 304
 Rifkin, Jeremy 202, 205
 right of establishment 159
 rights and responsibilities 257–8
 right-wing politics, definition of 116
 Roberts, Michael 301
 Robertson, Roland 173
 robotisation 214, 219, 259
 Rodrik, Dani 182, 246, 263
 Rogers, Chris 10, 217
 Romania 214
 Rosner, M. 176, 177
 Rozworski, Michal 296
 rule of law 30–2, 51, 149, 166, 248, 300
 ruling classes 34, 122–4, 144, 183, 185–7, 270, 279–80
- Russia
 automation 214
 carbon emissions 239
 cultural globalisation 171, 172
 economic growth 175, 192
 foreign direct investment (FDI) 164
 geo-political power 188
 globalisation 168–9, 170, 181, 182
 glocalisation 174
 Human Development Index (HDI) 193
 multinational corporations (MNCs) 185
 power elites 256
 sanctions 169, 181, 184, 196, 197, 198, 305
 secession from USSR 151
 semi-core 188–9
 state capitalism 266
 state power in post-capitalism 210
 transnational corporations 165
see also Soviet Union
- S**
 Sachs, Jeffrey 237
 safety-nets 39
 sanctions
 China 194, 196, 198, 284
 EU 249, 250

- Russia 169, 181, 184, 196, 197, 198, 305
 Soviet Union 148
 transnational corporations 253
 warfare 180
- Sanders, Bernie 11, 51, 303
- Savage, Mike 117–8
- ‘save the planet’ movements 238–41
- Scandinavia 97, 102n11, 193, 214
- Scholte, J.A. 162
- Schumpeter, Joseph 5, 208, 289
- Schweickart, David 60n2, 300
- Scottish Nationalist Party 303
- securitisation 35
- security threats 194, 196
- self-adjusting mechanisms 24, 25, 26, 93
- self-governing communities 216, 217–8, 228
- self-organised forms of production 218, 219
- self-regulating markets 37–9, 44–5, 46, 54
- self-sufficiency/self-sustaining communities 14, 200, 229, 263, 286, 287, 290, 297
- semi-core 4, 181, 182, 188–98, 231, 264, 284, 289, 305
- semi-periphery 2–3, 189, 198, 264
- semi-skilled workers 111, 179, 182, 213
- ‘service’ class 141, 142–4, 145, 149, 212
- service sector 81, 134, 171, 212, 213
- Shanghai Cooperation Organisation 188, 189, 190–1
- share-holder accountability 49, 253–4, 298
- Shelby, Richard C. 51
- shortage economy 85, 86
- Shue, Henry 239
- Simon, Herbert 204
- Singapore 88, 266, 274, 280
- Sino-capitalism 280
- Sklair, Leslie 147, 185–6, 188, 217, 221, 225, 228, 244, 257, 260, 261
- Smith, Adam 26, 37, 38, 42
- social capital 204
- social change movements 289–91
- social class
 anti-capitalism 223
 bourgeoisie 80, 90, 159, 185, 187, 208, 214, 270, 281, 293, 299
 at the centre of capitalism 13
 changing in UK 111
 changing structures 183–98
 China 279–80
 classless society 59, 91
 globalisation 256
 versus identity politics 121
 and inequality 62
 marginal to neoliberalism 51
 market socialism 90
 Marxism 18
 as mobilising principle 123
 no longer an organising principle in left neoliberalism 120
 occupational structure 116–7, 134, 141, 213
 psychological subjectivism 43
 radical economic reform 141–2, 146–7, 152
 reform of 231
 relational and symbolic aspects 117–8
 social democracy 287
 socialism 59, 64, 80, 91, 287
 socialism and the classless society 59, 91
 ‘socialist intelligentsia’ 81
 Soviet Union 144–5
 state socialism 81–2, 267
 in twenty-first century capitalism 288
 UK post-war 110
- social consensus 72, 93–4, 101–2
- social costs 45–6, 69, 298, 306–7
see also environmental issues
- social democracy
 decay of 96–114
 equality 61–2
 equality of opportunity 65
 as future alternative 8–9, 246–64
 gradualist/cumulative reform towards socialism 60, 96–7
 as hybrid economic system 287
 moving towards neoliberalism 124–7
 organising principles 103
 public ownership 61
 regulated market socialism 300–1
 as sub-culture of capitalism 101
 ‘Third Way’ 115–38
 transformation of Western 104–6
 UK 96–114
 weak electoral challenges of 11
- social democratic corporatism 13
- social democratic parties 250–2
- social enterprises 204, 211
- social globalisation 167, 168, 169, 189
- social institutions 45, 70
- social justice 39, 80, 126, 201, 248
- social media 171, 223, 225, 226, 227
- social mobility 41, 42, 77
- social state 297–8
- social wages 69
- socialism
 ascendant 216
 building the basis of socialist society 74–7
 China 11
 definition 8, 60, 61–3
 demise of working-class base 112, 113
 emancipatory 10
 emancipatory socialism 64
 embedding in society 71–2
 environmental issues 241
 Friedman’s critique of 20
 as future alternative 246–64
 justification of a planned economy 68–71
 and leftism 116
 and Marxism 63–5, 268
 normative basis of 59–73

- obstacles to twenty-first century 299–300
 regulated market socialism 285–307
 social rights model 55
 socialist markets 89
 and society 29
 versus state-capitalism 271
 socialist coordinated economies 259–60
 socialist globalisation 201, 256–64
 socially responsible businesses 204
 society
 neoliberalism as theory of 22, 28–9,
 32–3, 52
 socialism 63
 as superstructure 75–6
 sociological government 37
 sociological liberalism 32
 sociology 29, 63, 117–8, 119, 267
 South Korea 88, 274
 sovereignty 127, 153, 158, 159, 166, 181,
 184, 228, 247, 249, 264
 Soviet Union
 communism 75, 79, 150–1
 democracy 150
 economic and social consequences of
 modernisation 81–4
 Lenin's state capitalism 271–4
 participatory socialist planning 92
 perestroika 140–1
 rise of state socialism 77–81
 state socialism 72, 74–7, 267
 state-capitalism 268–70
 transition to market economy 139–54
 Spain 11, 228
 speculation 33–5, 70, 182, 211, 293
 spontaneity 28–9, 31, 35, 217, 221
 sport 212, 299
 Srholec, Martin 282
 Srnicek, Nick 5, 10, 11, 217, 228–9, 290
 stagflation 104
 stakeholder participation 13, 93, 243, 247,
 253, 258–9, 263, 298–9, 306
 Standing, Guy 213
 Starmer, Keir 11, 138
 state capitalism versus state-capitalism 5,
 11, 265–6
 state capitalisms 265–84
 state enterprise 102, 209, 276–7
 see also public ownership
 state officials 186
 state planning *see* planning
 state socialism
 criticisms/failures of 88–9
 economic and social consequences of
 modernisation 81–4
 limits to reform 95
 as a main structural alternative 13, 88–9,
 266–7, 286, 287
 market socialist criticism of 74–95
 moving to a market economy 139–54
 organising principles 103
 shifting away from 139–54
 state-capitalism 5, 11, 13, 18, 80, 89,
 267–84, 286
 state-controlled capitalism 14, 272–3, 281–4,
 286, 289, 291
 states
 counterbalancing markets 91
 de-globalisation 196
 globalisation 159–60, 167–70
 internationalisation 158–9
 intervention into 'depressed areas' 54
 national economies 158–9
 ownership and control 48
 party-state apparatus 80, 83, 91, 150
 post-capitalism 208–10, 232–3
 public accountability 49
 redistributive role 204, 208
 regulated market socialism 299–300
 retention of powers 184
 revival of national populist state 264
 role in classical liberalism 21
 role in neoliberalism 25, 35–7
 role in post-capitalisms 209–10
 semi-core 188–9
 socialist globalisation 258
 state socialism 65–8
 state-led investment 47
 in twenty-first century capitalism 288
 weakened by globalisation 183
 statism 5, 21, 38, 99–104, 185, 264
 Stiglitz, Joseph 222
 stock exchanges 34–5, 134, 282
 Streeck, Wolfgang 7, 217
 subjectivism 43–4
 subsidiarity 249
 successive approximation 296
 super-creative core 205, 212
 superstructure, society as 75–6
 surplus value
 China 280, 281, 282, 284
 global class structure 186
 Lenin's state capitalism 272
 Marxism 63, 80
 ownership of means of production 210
 state socialism 142, 143, 153
 state-capitalism 267, 268, 269, 271
 state-controlled capitalism 284
 varieties of capitalism 286–7
 see also profit
 surveillance capitalism 257
 sustainability 230–1, 233, 236–7, 238, 242,
 257, 306
 Sweden 102n11, 214
 Sweezy, Paul 241
- T**
- Tarrow, Sidney 14
 taxation 99, 102, 133, 134–5, 138, 162, 293

- technological advancement
 China 193–4
 current revolution 225
 digital technology 163, 171, 211, 215, 225, 226, 243–4
 environmental issues 200, 237
 FALC (Fully Automated Luxury Communism) 206
 free goods 207
 globalisation 160–1, 178, 179
 information/knowledge societies 202, 203–8
 modes of production 215
 neoliberalism 41–2
 owners of technology 207
 ownership of means of production 210–4
 planned economies 295
 post-industrial capitalism 202–3
 price mechanisms 296
 public investment 107
 revolution 290
 Soviet Union 78
 state socialism 87
 Thatcher, Margaret 10, 22, 27, 63, 100, 101–2, 107–11, 122, 124, 126, 128, 129, 130, 132, 136, 140, 147, 233
 think tanks 185, 186, 256
 Third Industrial Revolution 202, 205
 ‘Third Way’ 115–38
 time-space compression 161, 162, 197–8
 Tooze, A. 50
 totalitarianism 66, 70, 95, 257, 292
 trade unions 105, 110, 117, 125, 182, 229
 Transition Report (EBRD) 23n16
 transnational capitalist class 149, 183–98
 transnational corporations (TNCs)
 commodification of innovation 207
 competitive interdependence 194, 197
 corporate social responsibility (CSR) 254
 democratisation 252
 global democracy 249
 globalisation 162, 164–7, 185
 globalised capitalism 113
 mergers and acquisitions 209–10
 and national capitalisms 288
 oligopolies 52
 post-capitalism 211–2
 regulated market socialism 300, 304–5
 sanctions 197
 social class 257
 socialist globalisation 257, 260
 Soviet Union 147–53
 Trump, Donald 9, 32, 249, 256
- U**
- UK**
 carbon emissions 239
 globalisation 168–9, 170
 hegemonic power 188
 interpersonal globalisation 171–2
- Labour Party 11, 96–114, 250–1, 303
 nationalisation 301–2
 social democracy 11, 96–114
 socialist markets 89
 transnational corporations 164
 Ukraine 148, 151
 Ukraine/NATO–Russia war 169, 171, 174, 181, 184, 189, 195–6, 250, 264, 300, 305
 unearned profit 49
 see also rents
 unemployment 3, 5–6, 25, 45, 54, 69, 104, 108, 134, 135, 172
 unintended outcomes 69, 150, 235
 United Nations (UN)
 Climate Change Conferences (COP) 237
 international institutions 259, 288
 Security Council 248
 UN Framework Convention on Climate Change 237
 UNCTAD 164, 165
 unskilled workers 76, 116–7, 179, 213, 214
 urbanisation 81
- USA**
 alliance with UK 127, 129, 250
 automation 214
 bank bail-outs 50, 51
 carbon emissions 239
 and China 181, 194, 284
 cultural globalisation 171, 172
 Democratic Party 250, 303
 economic depression in 1980s 82
 economic growth 175
 exchange rates 109
 global economic crisis 2008 50
 global rules 249
 globalisation 170, 180, 181
 governmental personnel and advisors 37
 hegemonic power 106, 184, 188, 193, 197, 249, 283–4, 288
 income differentials 48, 76, 192–3
 international world order 151
 nationalisation 301
 Occupy movement 224–5
 post-war capitalism 96
 power elites 256
 social democracy 11
 socialism 303–4
 and the Soviet Union 141
 state enterprise 209
 transnational corporations 164, 165, 252
 unipolar world order 197
 WTO 127
 use values 66, 232, 243, 297–8
 USSR *see* Soviet Union
 utilitarianism 66
- V**
 values 76, 92, 93, 199, 252
 varieties of capitalism 18–9, 282, 286–7, 308

- voluntary co-operation 36, 38, 40
 von Mises, Ludwig 20, 27n36, 28, 47, 87
- W**
- wage differentials 76, 86, 108, 130–2
 Walker, Michael 23
 Wallerstein, Immanuel 5–6
 Walmart 296
 wants versus needs 44, 53, 66, 68, 70, 162, 182, 239–40
 Wars in Peace 128
 wartime 128, 197, 272
 wastefulness 72, 86–7
 water 41
 wealth creation 34, 124, 283, 293
 wealth distribution 43, 134, 179, 181, 292, 293
 Weber, Max 18, 87, 266, 280
 welfare provision
 collective welfare, as objective 71–2
 failure of markets 47
 globalisation 182
 move from ‘welfare state’ to ‘social state’ 297–8
 neoliberalism 39
 privatisation 209
 socialist globalisation 258
 state socialism 69, 80
 ‘Third Way’ 118
 UK post-war 98, 100
 welfare capitalism 101
 welfarist societies 96, 99
 Wesolowski, Wlodek 80, 91, 267
 Weyer, Martin Vander 9
 ‘what people deserve’ 28, 42, 53, 56, 303–4
 Williams, Alex 5, 10, 11, 217, 228–9, 290
 Williamson, Oliver 70
 Wilson, Harold 104, 106, 130
 Wittenberg Foundation 186
 Wolf, Martin 161
 Wolff, Richard 269
 working classes
 decline 187
 global South 212
 globalisation 178, 179
 market socialism 90
 middle-income jobs 134
 new forms of 214
 not the agents of the next revolution 216, 219
 and populism 122
 social democracy 112, 116–7
 socialism 76, 80
 Soviet Union 141
- World Bank
 economic growth 175
 equality 62
 global capitalism 6
 globalisation 161, 178, 180
 globalising professionals 186
 international executives 185
 liberalisation of Soviet Union 149
 proposals for reform 251
 reform 261
 social democratic parties 250
- World Social Forum 227–8
 Wright, Erik Olin 10, 152, 201n2
 WTO (World Trade Organization)
 Brexit 251
 China 42, 274, 280
 democratisation 263–4
 global democracy 249
 globalisation 161, 180
 globalising professionals 186
 international executives 185
 international rules 113
 neoliberalism 32
 sanctions 250
 social democracy 127
 Soviet Union 147
 transformation of Soviet Union to capitalism 149
- X**
- Xi Jinping 174, 191, 197, 198, 242, 261
- Y**
- Yeltsin, Boris 151
 Yugoslavia 90n26, 143
 Yunker, James 293
- Z**
- Zaleski, Eugene 85, 88n23
 zero marginal cost society 205, 212
 Zizek, Slavoj 217