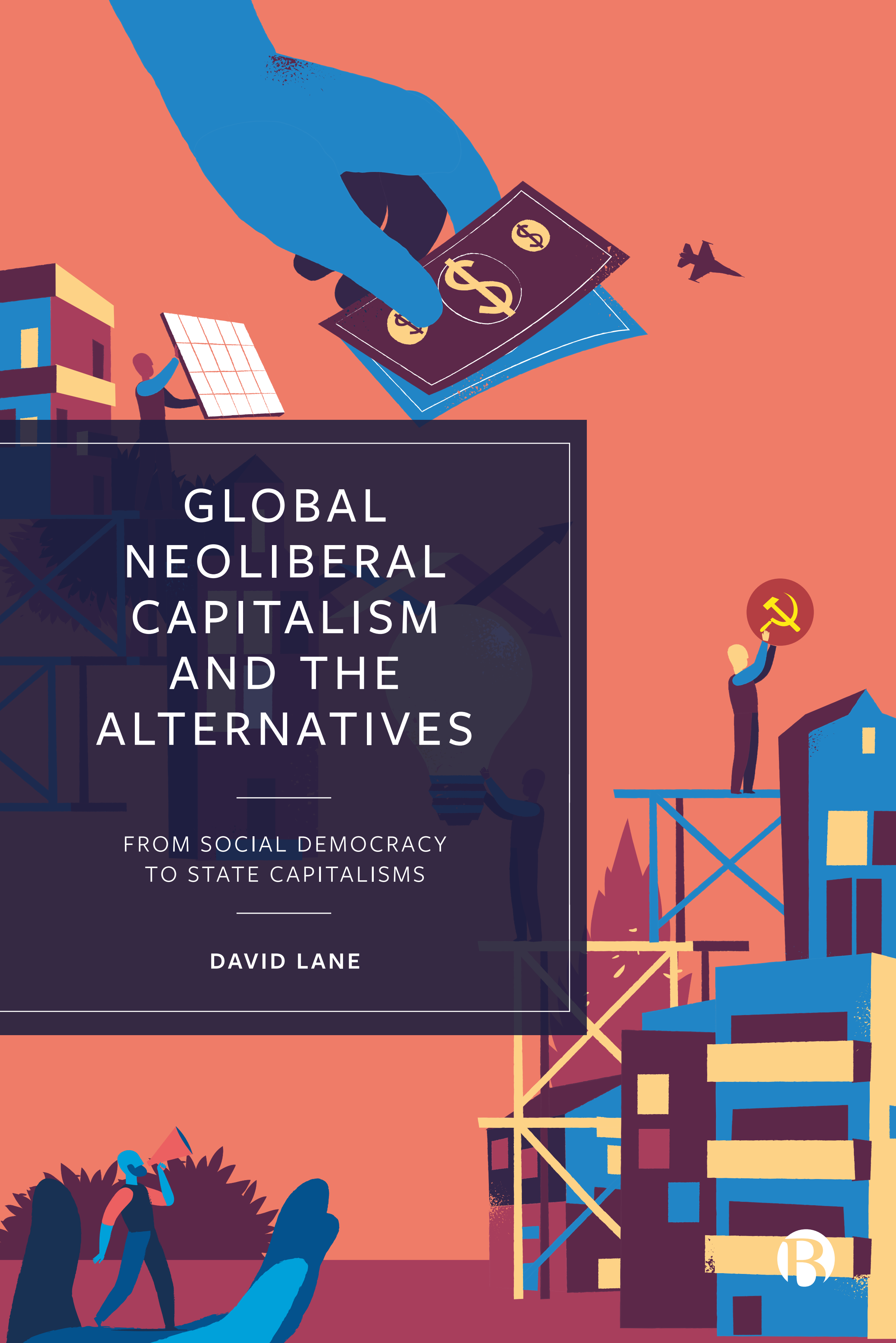

GLOBAL NEOLIBERAL CAPITALISM AND THE ALTERNATIVES

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

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[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 economy[3] 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

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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 Friedmans[33] 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 economists[36] 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.

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[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

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