A Brief History of Neoliberalism

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Introduction

Future historians may well look upon the years 1978–80 as a revolutionary turning-point in the world's social and economic history. In 1978, Deng Xiaoping took the first momentous steps towards the liberalization of a communist-ruled economy in a country that accounted for a fifth of the world's population. The path that Deng defined was to transform China in two decades from a closed backwater to an open centre of capitalist dynamism with sustained growth rates unparalleled in human history. On the other side of the Pacific, and in quite different circumstances, a relatively obscure (but now renowned) figure named Paul Volcker took command at the US Federal Reserve in July 1979, and within a few months dramatically changed monetary policy. The Fed thereafter took the lead in the fight against inflation no matter what its consequences (particularly as concerned unemployment). Across the Atlantic, Margaret Thatcher had already been elected Prime Minister of Britain in May 1979, with a mandate to curb trade union power and put an end to the miserable inflationary stagnation that had enveloped the country for the preceding decade. Then, in 1980, Ronald Reagan was elected President of the United States and, armed with geniality and personal charisma, set the US on course to revitalize its economy by supporting Volcker's moves at the Fed and adding his own particular blend of policies to curb the power of labour, deregulate industry, agriculture, and resource extraction, and liberate the powers of finance both internally and on the world stage. From these several epicentres, revolutionary impulses seemingly spread and reverberated to remake the world around us in a totally different image.

Transformations of this scope and depth do not occur by accident. So it is pertinent to enquire by what means and paths the new economic configuration—often subsumed under the term 'globalization'—was plucked from the entrails of the old. Volcker, Reagan, Thatcher, and Deng Xaioping all took minority arguments that had long been in circulation and made them majoritarian (though in no case without a protracted struggle). Reagan brought to life the minority tradition that stretched back within the Republican Party to Barry Goldwater in the early 1960s. Deng saw the rising tide of wealth and influence in Japan, Taiwan, Hong Kong, Singapore, and South Korea and sought to mobilize market socialism instead of central planning to protect and advance the interests of the Chinese state. Volcker and Thatcher both plucked from the shadows of relative obscurity a particular doctrine that went under the name of 'neoliberalism' and transformed it into the central guiding principle of economic thought and management. And it is with this doctrine—its origins, rise, and implications—that I am here primarily concerned.[1]

Neoliberalism is in the first instance a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade. The role of the state is to create and preserve an institutional framework appropriate to such practices. The state has to guarantee, for example, the quality and integrity of money. It must also set up those military, defence, police, and legal structures and functions required to secure private property rights and to guarantee, by force if need be, the proper functioning of markets. Furthermore, if markets do not exist (in areas such as land, water, education, health care, social security, or environmental pollution) then they must be created, by state action if necessary. But beyond these tasks the state should not venture. State interventions in markets (once created) must be kept to a bare minimum because, according to the theory, the state cannot possibly possess enough information to second-guess market signals (prices) and because powerful interest groups will inevitably distort and bias state interventions (particularly in democracies) for their own benefit.

There has everywhere been an emphatic turn towards neoliberalism in political-economic practices and thinking since the 1970s.

Deregulation, privatization, and withdrawal of the state from many areas of social provision have been all too common. Almost all states, from those newly minted after the collapse of the Soviet Union to old-style social democracies and welfare states such as New Zealand and Sweden, have embraced, sometimes voluntarily and in other instances in response to coercive pressures, some version of neoliberal theory and adjusted at least some policies and practices accordingly. Post-apartheid South Africa quickly embraced neoliberalism, and even contemporary China, as we shall see, appears to be headed in this direction. Furthermore, the advocates of the neoliberal way now occupy positions of considerable influence in education (the universities and many 'think tanks'), in the media, in corporate boardrooms and financial institutions, in key state institutions (treasury departments, the central banks), and also in those international institutions such as the International Monetary Fund (IMF), the World Bank, and the World Trade Organization (WTO) that regulate global finance and trade. Neoliberalism has, in short, become hegemonic as a mode of discourse. It has pervasive effects on ways of thought to the point where it has become incorporated into the common-sense way many of us interpret, live in, and understand the world.

The process of neoliberalization has, however, entailed much 'creative destruction', not only of prior institutional frameworks and powers (even challenging traditional forms of state sovereignty) but also of divisions of labour, social relations, welfare provisions, technological mixes, ways of life and thought, reproductive activities, attachments to the land and habits of the heart. In so far as neoliberalism values market exchange as 'an ethic in itself, capable of acting as a guide to all human action, and substituting for all previously held ethical beliefs', it emphasizes the significance of contractual relations in the marketplace.[2] It holds that the social good will be maximized by maximizing the reach and frequency of market transactions, and it seeks to bring all human action into the domain of the market. This requires technologies of information creation and capacities to accumulate, store, transfer, analyse, and use massive databases to guide decisions in the global marketplace. Hence neoliberalism's intense interest in and pursuit of information technologies (leading some to proclaim the emergence of a new kind of 'information society'). These technologies have compressed the rising density of market transactions in both space and time. They have produced a particularly intensive burst of what I have elsewhere called 'time-space compression'. The greater the geographical range (hence the emphasis on 'globalization') and the shorter the term of market contracts the better. This latter preference parallels Lyotard's famous description of the postmodern condition as one where 'the temporary contract' supplants 'permanent institutions in the professional, emotional, sexual, cultural, family and international domains, as well as in political affairs'. The cultural consequences of the dominance of such a market ethic are legion, as I earlier showed in *The Condition of Postmodernity*.[3]

While many general accounts of global transformations and their effects are now available, what is generally missing—and this is the gap this book aims to fill—is the political-economic story of where neoliberalization came from and how it proliferated so comprehensively on the world stage. Critical engagement with that story suggests, furthermore, a framework for identifying and constructing alternative political and economic arrangements.

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