tures has often intensified rather than minimised clashes between belief systems, and increased not reduced calls for statehood. Economic corporations depend upon states to provide infrastructure and legal support and economic management is still shaped by political culture and ideology. In short, states still provide the framework for cultural and economic activity.

Globalisation, in the form asserted by writers such Ohmae, is an ideological assertion rather than a description of inevitable economic and cultural processes. In this sense, the radical globalisation thesis shares a crude economism with some versions of Marxism. Such economism ignores the important question of governance that is raised by globalisation: how can states, acting individually and collectively, regulate the associations of civil society more effectively?

In Chapter 10, I will argue that the concept of globalisation best describes, not the triumph of capitalism, but a set of global risks. Defined in this way, globalisation is changing the context in which states govern and is creating the opportunity, if states are willing to seize it, for the creation of alternative forms of governance. Global risks highlight the need for a global system of governance to regulate the environmental damage and material inequalities caused largely by the economic liberalisation championed by many exponents of globalisation. However, since the 1980s, the influential ideology of neo-liberalism has advocated the promotion rather than regulation of economic 'globalisation'. Neo-liberalism is therefore the next challenge to the state that we shall explore.

4

Neo-Liberalism

The radical globalisation thesis discussed in the previous chapter has at its core an economic determinism, which greatly underestimates the role political ideology has played in promoting the 'virtues' of the free market in recent decades. That is to say economic globalisation is not an inevitable set of processes, but has instead been actively promoted by neo-liberal theorists and politicians suspicious of state interference in civil society. The ideology of neo-liberalism therefore presents another important challenge to the power of the state and is the subject of this chapter.

Neo-liberals seek, above all, to transform the balance of power between state and civil society. In particular, they believe that the economic institutions of civil society are more effective in creating order and distributing resources than is the state. For neo-liberals, human potential is best realised, not through power being centralised in the state, but by the promotion of a free economy, where power is dispersed throughout civil society.

However, this chapter will argue that neo-liberalism is deeply flawed, both conceptually and in practice. The central paradox of neo-liberalism is that it is critical of the state but at the same time accepts the state as a necessary evil. So while neo-liberalism rightly highlights the limitations of a system of governance centred upon the coercive and bureaucratic state, it fails to find a convincing alternative. Instead, neo-liberals seek to regulate society through the laws of supply and demand. In practice, however, the 'free market' creates high levels of social inequality and therefore social conflict. To manage these problems, the limited state that neo-liberals embrace is forced in practice to become increasingly coercive. The deregulation of the economy therefore ironically leads to a strong state. Furthermore, their suspicion of political interference with the market makes neo-liberals wary of democracy and therefore the strong neo-liberal state is also an increasingly unaccountable state as well. The chapter therefore concludes that the challenge to the state presented by neo-liberalism is a bizarre one, given that its policy prescriptions result in an even more coercive and unaccountable state. Moreover, as the world economy is structured in the interests of powerful states, the dominance of neo-liberalism in the international arena also has enormous negative implications for the fortunes of developing countries and for the management of global problems generally.

The chapter is structured as follows. First I summarise neo-liberal theory and consider its policy implications. Next, a case study of the application of neo-liberal ideology in Africa will be used to illustrate the difficulties of putting such an abstract doctrine into practice. Finally, the chapter concludes with a critical assessment of neo-liberalism, focusing upon its implications for the state–civil society relationship.

An Outline of Neo-Liberalism

Since the 1980s, neo-liberal doctrines have been influential in two ways:

1. They have formed the ideological core of international economic organisations such as the World Bank and the International Monetary Fund (IMF), particularly in their advocacy of such ideas as 'structural adjustment' as a 'cure' to the economic problems of the underdeveloped world.
2. They have been highly influential upon the governments of the developed world from the 1970s onwards, particularly in the USA under Ronald Reagan and George Bush, and in Britain under Margaret Thatcher and John Major.

The key thinker of neo-liberalism, from whom many other theorists derive their ideas, is the Austrian philosopher Frederick Hayek. Of particular significance is his seminal work *The Road to Serfdom* (1944). This book not only provides one of clearest accounts of the neo-liberal perspective, but also is especially interesting because it outlines a radical theory that was at odds with the prevailing mood of its time. Written in 1944, during a period when industrial societies were enthusiastically embracing state intervention and the growth of the public sector, Hayek's polemic on the inefficiencies and dangers of the large state seemed strangely out of place.

Lash and Urry (1987) argue that because of the widespread realisation of the limits of the market in the latter half of the nineteenth century the years from the 1870s to the 1970s saw the development of an increasingly 'organised' capitalism. As Hall and Schwarz (1985: 10) contend: 'the tempo of state intervention increased sharply in the 1880s and 1890s; the boundaries between state and civil society began to be redefined; and the nightwatchman role of the state began to be steadily eroded'.

Social liberalism, with its acceptance of the need for state intervention to provide training, economic stability and a state welfare system, replaced classical liberalism (with its advocacy of *laissez-faire* economics) as the dominant ideology in much of the capitalist world from the late nineteenth century onwards. The development of organised capitalism identified by Hall and Schwarz grew in pace at the time when Hayek was penning *The Road to Serfdom*. This was due mainly to the industrialised nature of the Second World War, which required extensive planning to mobilise the whole of the societies of the participants, and therefore further increased the need for state intervention in civil society. It was such intervention that led Hayek (1944: 15) to write that the dominant trend was towards 'an entire abandonment of the individualist tradition which has created Western civilisation'. However, as had occurred in the 1870s, it was an economic crisis that led to a reconsideration of the relationship between the state and the market at the end of the 1970s (See box 3.1). It was at this time that Hayek's theories appeared to resonate with the prevailing economic and social conditions and to offer a clear way forward for capitalism.

Hayek's work provides a scathing attack upon collectivist theories, such as social liberalism, which have advocated the expansion of the power of the state at the expense of the market. Neo-liberals rejected the explanation that capitalism's problems were due to the inherent weaknesses of the capitalist system. Rather, such problems were best explained by a number of factors, which to varying degrees were undermining capitalism in the USA and across Europe in the second half of the twentieth century. These included:

1. A commitment to Keynesian economic management that involved the interference of the state with the operations of the free market.
2. Increased welfare spending, which meant higher taxes and therefore lower investment in industry and less consumer spending. The welfare state also created a dependency culture that undermined personal responsibility, enterprise and innovation.
3. The development of corporatism and, in particular, the increasing influence of trade unions in the making of economic policy. This led to the artificial inflation of wages, increased industrial unrest that disrupted production, and the pursuit of full employment which could not be sustained economically.

The solution to the decline in profitability and the rise in social unrest and political disillusionment was the reversal of these trends. Neo-liberal economists such as Friedman (1980) and political scientists like Brittan (1976) built upon the insights of Hayek and advanced an alternative strategy to the statist economic management of the post war period. Such writers argue for a minimal state that provides for internal order and for protection from invasion by hostile states, but which leaves economic affairs almost exclusively to the market. In this way a 'spontaneous order' will be created whereby society needs will be met by the laws of supply and demand. Prosperity for all will be increased because the most gifted individuals will be freed from political interference and excessive taxation and will be increasingly innovative and creative, thus resulting in a 'trickle down effect' whereby the efforts of the few will result in opportunities for everyone.

At the centre of this philosophy is the rejection of abstract notions of society, community and the 'public good'. According to Hayek, the dominance of the West in modern world history can be attributed to an emphasis upon individuals' freedom to choose (Hayek, 1944: 11). For neo-liberals, individuals are perceived as autonomous, self-governing and rational actors who enter into voluntary political, economic or social contracts within civil society. Neo-liberals argue that inequality is both inevitable and desirable. Attempts to offset inequality through state interference will inevitably lead to the erosion of human freedom, preventing individuals making choices about how to spend their income. The inevitability of human diversity within civil society will ensure that the state acts on only a partial, and therefore distorted, understanding of individuals' needs. This will, argues Hayek, lead at worst to totalitarianism, and at best to an increased conflict between ever-more expectant citizens and a state unable to fulfil its promises. Voluntary exchange within the free market is a far more reliable way of ensuring the fulfilment of individuals' talents because it does not discriminate between people on the grounds of prejudice or ideology, but merely reflects the ability of individuals to manipulate the market to their advantage.

Neo-Liberalism in Practice

One of the effects of the radical globalisation thesis, explored in Chapter 3, has been to help erode, in some countries, social liberalism as the cornerstone of political management of the economy. Consequently, in the USA and Britain, there has been an ideological shift towards neo-liberalism, which was seen by the Republican Party of Reagan and the Conservative Party led by Margaret Thatcher as the ideology most suited to the new 'globalised' conditions in which such governments found themselves during the 1980s.

Like all ideologies that are applied to actual societies, the policy outcomes of neo-liberalism are far removed from the apparent coherence of Hayek's work. However, neo-liberalism did provide a clear set of policy alternatives to the Keynesianism of the post-war period. When the profitability of capitalist society declined dramatically during the 1970s, political parties on the right of the political spectrum in Europe and the USA turned to neo-liberalism to provide a blueprint for restructuring their societies. As we shall see in the next section of this chapter, the adoption of neo-liberalism by Western economic institutions was also to have serious repercussions in the developing world. The main features of a neo-liberal programme of reform follow from two core principles:

1. The superiority of markets over politics in providing for human need, generating prosperity and enhancing personal freedom.
2. The need to defend individuals' market rights, including property rights, the right to assert one's inequality and the right to choose from a diversity of goods and services in the market place.

From these guiding dictums a number of policies logically follow. These include:

1. Deregulation of the economy, including greater openness in international trade and investment, reduction in business taxation, and the slashing of any bureaucratic 'red tape' that hinders private accumulation and profitability.
2. The reduction of trade union rights and the creation of a flexible labour market where wages find their own level.
3. Cuts in public expenditure in social services such as health, welfare and education.
4. Privatisation of public services whenever possible and the creation of 'quasi-markets' which apply market principles such as internal competition for services, contracting out of peripheral work tasks, and performance related pay in other state-run services.
5. A redefinition of citizenship where limited civil and market rights are emphasised at the expense of social entitlements, and citizens are expected to take greater personal responsibility for themselves and their dependants.

It is essential to stress that the influence of such neo-liberal principles has not been uniform across all countries that have been influenced by them. The application of such policies is mediated through such factors as the political institutions and culture of any given state and a state's relative strength in the world economic system, as well as its social and economic characteristics. For example, in Britain the rise of the neo-liberal agenda of Thatcherism in the 1980s and 1990s can be attributed to a number of complex factors which, when combined at a particular juncture, created the possibility for the Thatcherite project to supersede social liberalism. These factors included:

1. A political culture which stressed individualism, associated with developments such as the early growth of basic rights through such developments as Magna Carta in 1215 and the establishment of Habeas Corpus in 1679, and the political theory of liberals such as Thomas Hobbes and John Locke in the seventeenth century. This meant that Britain's political culture, with its emphasis upon individualism, was conducive, in ways which other European countries were not, to the arguments of neo-liberalism.
2. A political constitution that was unwritten and rested largely upon the self-constraint of governments to respect the many conventions of British politics. This, therefore, allowed for the possibility of a radical government to assert a neo-liberal agenda by ignoring the largely informal constraints of tradition.
3. A political and economic history that placed Britain at the heart of the development of the world economic system and that made it, paradoxically, both vulnerable to, but supportive of, processes of free trade and deregulation in the post-war period, when its underlying economic performance was in decline.

A key weakness of neo-liberalism, however, is that its highly abstract formulations blinds it to historical and structural constraints which may render its implementation highly unsuitable. To illustrate the difficulties of applying neo-liberalism in states less structurally conducive than Britain to its doctrines, and to highlight some of its theoretical flaws, I shall next examine in some detail its influence in Africa since the 1980s. It should first be stressed, however, that in exploring the failure of neo-liberalism in Africa I am in no way suggesting that all of Africa's problems can be attributed to the neo-liberal policy of structural adjustment. Africa's problems are, of course, long standing and deep rooted and result from the problems of securing stable governance, imperialism and the failure of political leadership, amongst many others (see Thomson, forthcoming). However, Africa's experience of neo-liberalism does help to illuminate neo-liberalism's

general inability to solve the problems of governance as well as its failure to acknowledge the structural inequalities that are built into the states system and which prevent sustainable development throughout the developing world.

Neo-Liberalism in Africa

In Africa, the application of neo-liberal policies has been led by the IMF and the World Bank in their role as what Susan George has called 'collection agencies for the creditor countries' (George, 1993: 63). Following the decline of the European empires after 1945, many newly independent African countries found that a downside of their new-found 'freedom' was the legacy of a massive burden of debt. This debt continued to grow, particularly following the world recession of the 1970s, so that by the late 1980s the value of the continent's debt relative to its export earning was 500 per cent (Watkins, 1995: 74). Consequently, the IMF and World Bank, acting in the interests of the industrial countries that had created them, began to look for new ways to make Africa pay back its creditors.

In 1981 the World Bank produced the Berg Report that blamed Africa's economic problems firmly upon the failure of African states to manage their own economies effectively. The Report set out the alleged need for what was called the 'structural adjustment' of African states. This primarily involved the assertion of neo-liberal reforms of Africa's economic and political structures in an attempt to render them efficient and thereby enable them to honour their debts. Loans from the IMF and World Bank were to be made only on the condition that those states accepting them would manage their economic affairs according to neo-liberal principles.

The central strategy dictated by structural adjustment was the notion of comparative advantage, whereby states would maximise their economic potential by focusing upon the export of one or two specialist commodities such as copper or cocoa that they had a history of producing. In this way, it was argued, African states could gain greater access to world markets. Such a strategy needed to be supported by the reduction of state interference in industry, privatisation programmes, the removal of barriers to international trade, and the deregulation of the labour market. The Berg Report assumed that Africa's failure to modernise itself could overwhelmingly be attributed to political mis-management. Therefore, the only solution open to them was to roll back the frontiers of the state, thereby freeing the much more effective mechanisms of market forces. Underdeveloped states could only succeed if they reformed their systems in line with the needs of the global economy.

The high level of indebtedness of African states ensured that many did, albeit often reluctantly, pursue structural adjustment. Since the early 1980s, around thirty African states have embarked on all or some of the neo-liberal reforms set out by the IMF and World Bank (Watkins, 1995: 74). For example, in Nigeria between 1991 and 1993 some thirty-five public enterprises were privatised (Moser et al., 1997: 43), in Kenya unions were subject to government restrictions under pressure from the World Bank, and in Ghana there occurred an extensive liberalisation of trade mechanisms (Brown, 1995: 76).

Those organisations promoting neo-liberal policies in Africa were convinced of their success and, in line with the neo-liberal orthodoxy of writers like Hayek, claimed not only economic benefits but also an increase in individual freedom and opportunity for the citizens of Africa's states. The IMF asserted that in countries like Ghana which 'effectively implemented comprehensive adjustment and reform programs', such policies have decreased poverty as well as leading to increased income levels, the modernisation of economic structures, and an increased share of world trade (Hadjimichael et al., 1996: 44; Dixon et al., 1995: 6). The World Bank concurs with this positive assessment of neo-liberal policies in Africa. A report by the Bank in 1994 concluded that the more countries have embraced structural adjustment, the greater have been the economic and social benefits (World Bank, 1994).

However, many aid organisations and academics have been critical of structural adjustment policies. They have questioned the true extent of the economic gains claimed by neo-liberals, and have pointed to the huge social costs associated with such policies. The IMF and World Bank's claim that, if implemented correctly, structural adjustment results in economic growth, has been questioned by Schatz. In an alternative statistical analysis of the World Bank's 1994 report, he concludes that the data presented 'fail[s] to support this claim and even bolster the contrary thesis' (Schatz, 1994: 679). Watkins contends that any benefits created by adjustment in some areas of the economy are normally more than offset by decline in other sectors. Zimbabwe, for example, did experience average annual growth rates of 2.7 per cent in the 1980s, but this was accompanied by 'deteriorating living standards', brought on by increased population growth and an 'increasingly untenable budget deficit' (Watkins, 1995: 76).

One weakness of neo-liberalism is its obsession with narrow economic criteria as a measure of a state's success, without taking into consideration the wider social impact of reform. As Logan and Mengisteab (1993) contend, it must be remembered that even in countries such as Ghana, which has had some success in attracting overseas investment and increasing its trade, such developments should not be seen as ends in themselves but rather should be aimed at the general well being of the country as a whole. They argue that the policies of neo-liberalism have the effect of excluding 70 or 80 per cent of the population and are socially divisive. Contrary to the IMF assessment of Ghana as a flagship example of the benefits of neo-liberalism, Haynes (1996: 88) argues that the results of adjustment in Ghana have amounted to 'social failure'. Despite extensive adjustment policies, ordinary workers found that in 1993 the minimum day's wage of 46 cedis was equal to \$0.33 and could purchase only a single bottle of beer! Even the IMF's positive assessment of Ghana's performance conceded that 1996 rates of economic growth would mean that those in absolute poverty would require from thirty to forty years to move out of poverty (Hadjimichael et al., 1996: 44–5). Moreover, even this prediction seems optimistic if one considers that the mild alleviation of poverty claimed by the IMF is more likely to be attributable to the increase in state spending on health and social services in the late 1980s, after they had been slashed in the early years of structural adjustment, rather than the result of the 'trickle down of economic wealth' suggested by neo-liberals (Hadjimichael et al., 1996: 45).

The policy of concentrating upon export-led growth has also been heavily criticised. Such concentration has been extensive in many African states; for example in the 1980s copper accounted for 83 per cent of Zambia's exports while cocoa made up 63 per cent of Ghana's total export earnings (McMichael, 1996: 129). As Brown (1995: 5) argues, the result of such a policy has been 'gross over-production and growing stocks of commodities, which has led to sharply falling world prices of primary commodity exports and thus to a collapse in the earnings of African countries'. The policy of devaluation of currency that often accompanied this export-led approach also meant that any benefits of this strategy were offset by the lowering of earning capacity of workers in real terms and the increase in the cost of imports (Logan and Mengisteab, 1993).

Structural adjustment policies have also had an adverse effect on social cohesion in many states. One of the problems here is the neo-liberal assumption that the answer to Africa's problems is to ape the industrial world in order to emulate its economic success (Brown, 1995). This has often meant adjustment policies have been insensitive to the traditional indigenous cultures of African states and have exacerbated social tensions. Even a state like Tanzania, with 'a long history of ethnic, racial, and religious cohesion', has 'begun to fray as the Government attempts to reform its ailing economy' (Kaiser, 1996: 227). In Tanzania, racial tension has emerged largely as a result of the 'benefits' of reform disproportionately accruing to the minority Asian community. As Watkins (1995: 78–9) argues, the failure of market regulation to provide 'a framework for poverty reduction' coupled with the fact that social welfare programmes have 'not been adequately protected', has meant that the gap between rich and poor has grown under neo-liberal policies. Kaiser (1996) concludes that, in states with a greater history of unrest than Tanzania, adjustment policies are likely to result in even greater social conflicts.

Ironically, although market reforms have significantly undermined the strength of the state to govern effectively, the World Bank and the IMF have often blamed the lack of success of neo-liberal policies on 'poor governance'. For example, in assessing Nigeria's abandonment of structural adjustment in 1994, the IMF blames the inability of the government to win popular support for economic reform (Moser et al., 1997). Neo-liberals such as Hayek have emphasised the superiority of market forces over state planning, but political and economic factors cannot be so easily detached. As Mackintosh (cited in Kiely, 1995: 129) suggests, 'there is no such thing as a free market: *all* markets are structured by state action'. This brings us to the key problem of neo-liberalism in practice. Individuals and states engage in market activity, not as autonomous and unconstrained actors, but act in the context of social and economic structures. For individuals, their ability to compete in the market is shaped by such factors as their 'race', gender and class position. Similarly, countries exist within the context of a states system that privileges some countries over others. In the case of African states, their ability to compete in world markets is greatly restricted by such structural factors, as well Africa's own historical, political and economic circumstances. In ignoring such conditioning factors, neo-liberalism displays a profound lack of understanding of the nature of power. It was highly unlikely that Africa's long-standing problems in constructing effective mechanisms of governance could be solved by importing a highly abstract economic theory which was blind to the multiple sources of Africa's problems.

Any solution to the continent's problems has to begin therefore by acknowledging this fact and dealing with the many factors that hold back Africa's development such as a lack of access to technology, poor internal infrastructure, political instability and the related difficulties of attracting foreign investment (United Nations, 1996b: 27–32). However, one of the paradoxes of the West's promotion of structural adjustment has been its insistence that states in Africa have all too often been self-serving and inefficient, and have therefore been impediments to capitalism, while at the same time displaying geo-political expediency in supporting some of the most corrupt African governments. A classic example of this can be found in the former state of Zaire, renamed the Democratic Republic of the Congo in 1997. As Brown (1995: 111) argues, the 'hideous regime' of Zaire's dictator Mobuto Sese Seko was sustained by the USA as a convenient base for the Angolan rebels the USA supported in their struggle against the Marxist government of Angola. The result of this was that the corrupt Mobuto plundered his country's extensive natural resources for personal gain. Mobuto, who once claimed that 'I owe Zaire nothing. It's Zaire that owes me everything', came to power in 1965 promising to live on his soldier's income, but was thrown out of power by the rebel leader Kabila in 1997 having plundered an estimated $4 billion for himself from his often starving people (*Observer*, 1997). Such examples illustrate the *naïveté* of neo-liberalism in ignoring the constraints that external and internal political factors have played in maintaining Africa in a state of underdevelopment. As the IMF has itself recognised, even in countries with some evidence of benefiting from neo-liberal reform, a key question has been the ability of unstable states to attract sufficient private investment (Moser et al., 1997). Such organisations as the IMF have failed, however, to understand the way in which economic disadvantage and political crises in many African states have reinforced each other, thereby making it unlikely that investors can have sufficient confidence to make a long-term financial commitment. Moreover, recent examples of political instability, corruption and civil war have occurred, not as a result of Africa's inherent 'primitive culture' as has often been implied by the West, but largely as a consequence of the contradictions in Western policy to Africa. As Brown (1995: 6) writes, 'the outbreaks of civil violence and internecine wars in Africa seemed to be more the result of the impasse of accumulating debt and the destruction of old forms of community action than of any irreconcilable differences between ethnic groups'. The combination of extreme indebtedness, political interference from the developed world and inappropriate Western-inspired economic reforms, have all hindered Africa's ability to compete in the world market and to maintain the living standards of its people, thereby increasing social unrest and creating a vicious circle of structural exclusion.

As the World Development Movement has argued (1993), it is not just Africa's geo-political position that prevents its development, it is also its relationship to the world trade system, which operates in a manner that is far from 'free'. The structure of world trade constructed during Africa's colonial period is partly still in place; for example in 1993 over half Africa's trade was with the countries of the European

Union while only 7 per cent was between African states themselves. Africa is therefore dependent on its trade links with Europe that are structured in ways that disadvantage African states. One of the problems with Africa's reliance upon primary commodities has been that the continent has little control over the price of these commodities. Satellite technology means that the West often has greater knowledge of the extent of mineral reserves and the performance of cash crops in Africa than do the Africans themselves. This aids the West in fixing price levels to its advantage (Spybey, 1996: 84). In addition, in 1993 many trade tariffs still existed on goods manufactured in Africa and this helped to prevent a shift away from a dependence upon primary commodities (World Development Movement, 1993).

The myth of the free market is not the only untruth that has driven neo-liberal policy in Africa. The ideological emphasis the IMF and World Bank have placed on the benefits of the market has led them to claim falsely that in South-East Asia, economic success during the early 1990s could be attributed to market forces alone (rather than being led by the state), and that this should be the model broadly followed in Africa. As Dixon and his colleagues have argued:

> The international agencies have indulged in a considerable measure of 'double think' with respect to the role of the state in the development of the Pacific Asian economies . . . attributing the economic problems they experienced during the early 1980s to state involvement in the market, and their subsequent rapid economic recovery to successful liberalisation. (Dixon et al., 1995: 3)

When such organisations as the World Bank argue that the state should play an indirect and limited 'enabling' role in support of economic development they ignore the fact that in South-East Asia the state has often played a much more direct developmental role in economic growth (Ramesh, 1995). Many writers have claimed that such a developmental role for the state may be much more appropriate for many African economies. Such a judgement rejects the highly abstract neo-liberal view of state intervention as being wrong in all places and at all times, and instead asserts a 'balanced pragmatism' where policy should be led by 'an even handed weighing of probable costs and benefits of government involvement on the one hand, and reliance on the market on the other' (Schatz, 1994: 692). As Kiely (1995: 132) argues, such a practical perspective 'does not deny that many states in the developing world are inefficient, but this must be demonstrated rather than theorised on an a priori basis devoid of any historical or social content'. This lack of empirical rigour lies at the heart of neo-liberalism and goes a long way to explaining its lack of success when applied to practical economic and political problems in both the developing and developed world.

Neo-Liberalism and the Problem of Governance

Neo-liberalism does raise fundamental questions about governance. In particular, neo-liberals have been right to highlight how the concentration of power in the state means that the state is often an oppressive, bureaucratic institution which fails to serve the diverse interests of its citizens. Therefore the state can never be a guarantor of order and an effective distributor of resources. Neo-liberals therefore argue for a greatly reduced role for the state and turn to the market to govern the economic interactions of individuals. The illusion that the state can create social justice by over regulating the market should be abandoned and the state put firmly back in its proper place. This neo-liberal challenge to the state has forced many on the left to reject the interventionist state as the solution to the problem of governance, and to consider how the balance between the state and civil society can be transformed (see Chapter 9).

However, as our case study of Africa has highlighted, neo-liberalism has been shown to have weaknesses both theoretically and in practice. Consequently, despite neo-liberal rhetoric about the need to roll back the state, it is unlikely that the real problems of the state identified by writers like Hayek can be resolved in the way he suggests. Some of the clearest deficiencies of neo-liberalism are its flawed conception of the relationship between the state and civil society, its promotion of extreme inequalities of wealth and income, its failure to acknowledge the adverse effect of deregulated markets upon forms of human community, and its lack of understanding of the structures of power. When these weaknesses are considered in combination a number of tensions are revealed in neo-liberal theory, which account for its failure in practice.

The problematic position of the state in neo-liberalism arises from the fact that while wishing to severely limit its operations, neo-liberals accept the need for a state to protect the rights of the individuals and assert the rule of law. However, this leaves unanswered the question that if a state, albeit a limited one, is necessary, how and in whose interests is it run? The importance of this question is heightened by neo-liberalism's embrace of inequality. Neo-liberals argue that such inequality will be accepted by individuals with good grace, since in a society governed by neo-liberal principles such inequality will be the product of a fair struggle within the neutral and undiscriminating market place rather than a result of a prejudiced political judgement by the state. Moreover, the detrimental effects of inequality will in time be offset for the majority because of the huge economic gains created by the free market and the effects of wealth from the most successful 'trickling down' to the rest of the population.

However, the neo-liberal judgement that market forces should be extended at the expense of the state assumes that all individuals begin the race to succeed in the market at the same starting point. As our example of Africa starkly illustrates, this is plainly not the case. The free market does not take into account structural disadvantages such as 'race', gender and class that prevent a fair race from being run. Once this point is accepted neo-liberal theories collapse into contradiction. Structural inequalities lead to social conflict which cannot be resolved by the market. Consequently the state is forced to become increasingly coercive to assert the rule of law. Such social conflict is also exacerbated by the adverse effect that economic deregulation has upon traditional forms of community. As Giddens (1994: 40) has contended, 'neo-liberal political philosophy unleashes detraditionalising influences of a quite far reaching kind' and this undermines possible social and moral barriers to social disorder and conflict, such as traditional family and community structures. The failure of neo-liberalism to produce the large economic growth it promises, the growing gap between rich and poor in both the developed and developing world, and the lack of any evidence of a 'trickle down' effect have meant that, in countries which fell under the neo-liberal spell, the state introduced draconian measures through police and criminal justice reform in order to combat disorder and rising crime rates. For example in Britain the Thatcher and Major governments introduced a number of legislative measures from 1979 onwards which ironically greatly increased the coercive power of the state. Expenditure on the police and prisons grew rapidly, the police were given greater powers to restrict demonstrations, and basic civil rights, such as the right to remain silent in police custody, were removed (Benyon and Edwards, 1997).

This last point brings us back to the question of the state and its relationship to civil society. The inevitable outcome of neo-liberal economic policy, which generates vast and unjustified inequalities, is a strong state that operates in the interests of those who prosper from the operations of the market and which, contrary to the libertarian aspirations of neo-liberalism, entails extensive state interference in civil society. To take Britain as an example once again, the Thatcherite attempt to assert the market often led the state into high-profile conflicts with the associations of civil society, including disputes with professional groups such as teachers and doctors, who protested against the introduction of market reforms into public services (Gilmour, 1992: 184–216).

Finally, not only is the neo-liberal state a highly coercive state, it is also an unaccountable one. Hayek's (1944) hostility to democracy reinforces this interpretation of the outcomes of neo-liberalism: a state that exists to serve the interests of the market rather than being served by it cannot but act in a coercive and undemocratic manner. Because Hayek is so wary of democracy leading to what he sees as anti-market legislation (such as the extension of social rights guaranteed by the state), he argues that a liberal society does not necessarily have to be a democratic one. This view has been echoed in the application of neo-liberalism in Africa; for example one neo-liberal economist stated that in order to successfully enact market reforms, 'a courageous, ruthless and perhaps undemocratic government' was required to 'ride rough-shod' over the democratic wishes of the people (cited in Brown, 1995: 110). The logic of neo-liberalism necessarily entails restricting democracy, precisely because the democratic majority is likely to perceive a deregulated market to be socially and morally unacceptable in its consequences.

This has meant that in practice the neo-liberal state has centralised power rather than dispersed it throughout civil society. To return to our example of the British experience, the neo-liberal state under Thatcher and Major increasingly reduced the power of local government, and greatly increased the number of government appointed 'quangos' which took the place of elected bodies in regulating industries and public services (Coxall and Robins, 1994: 169–203).

Conclusion

This chapter has highlighted the many contradictions of the neo-liberal challenge to the state. While highly critical of the state's interference with the associations of civil society, and therefore advocating the 'rolling back of the state', neo-liberals have ironically embraced an increasingly coercive and unaccountable state. This is because the problems of maintaining social order and distributing resources according to the requirements of justice become acute where the forces of the market are left unregulated. Neo-liberal prescriptions have therefore led to social division and unrest in the developed and developing world. This has required greater state interference in civil society, through the growth in the powers of law-enforcement agencies.

The dominance of neo-liberal principles in powerful, Western-led, international institutions such as the IMF and World Bank, means that such institutions have perceived an extensive role for political institutions as part of the problem of, rather than the solution to, underdevelopment. Such an abstract approach to economic development ignores the ways in which the world economy is structured in the interests of developed countries. Powerful states have been 'the midwives' rather than the victims of economic deregulation and have shaped international trade, not in ways consistent with the 'free' market, but rather in their own interests (Weiss, 1998: 204).

The apparent critique of the state in neo-liberal theory is revealed as in reality a critique of democratic governance. Domestically, the neo-liberal state is not a weak state, but a strong and unaccountable state. Internationally it is powerful states, as much as the laws of supply and demand, which have shaped a distinctly undemocratic system of global governance (See chapter 10). In effect, neo-liberalism is a particular state strategy which serves the interests of those individuals and actors who stand to gain from economic deregulation, both domestically and internationally.

This anti-democratic tendency, inherent to neo-liberalism, has been a major factor in redoubling the efforts of new social movements to oppose the coercive statism that paradoxically emerges from the application of neo-liberal policies. The challenge to the state presented by new social movements is the subject of Chapter 5.