A BRIEF HISTORY OF NEOLIBERALISM

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1

Freedom's Just Another Word . . .

For any way of thought to become dominant, a conceptual apparatus has to be advanced that appeals to our intuitions and instincts, to our values and our desires, as well as to the possibilities inherent in the social world we inhabit. If successful, this conceptual apparatus becomes so embedded in common sense as to be taken for granted and not open to question. The founding figures of neoliberal thought took political ideals of human dignity and individual freedom as fundamental, as 'the central values of civilization'. In so doing they chose wisely, for these are indeed compelling and seductive ideals. These values, they held, were threatened not only by fascism, dictatorships, and communism, but by all forms of state intervention that substituted collective judgements for those of individuals free to choose.

Concepts of dignity and individual freedom are powerful and appealing in their own right. Such ideals empowered the dissident movements in eastern Europe and the Soviet Union before the end of the Cold War as well as the students in Tiananmen Square. The student movements that swept the world in 1968—from Paris and Chicago to Bangkok and Mexico City—were in part animated by the quest for greater freedoms of speech and of personal choice. More generally, these ideals appeal to anyone who values the ability to make decisions for themselves.

The idea of freedom, long embedded in the US tradition, has played a conspicuous role in the US in recent years. '9/11' was immediately interpreted by many as an attack on it. 'A peaceful world of growing freedom', wrote President Bush on the first anniversary of that awful day, 'serves American long-term interests, reflects enduring American ideals and unites America's allies.' 'Humanity', he concluded, 'holds in its hands the opportunity to offer freedom's triumph over all its age-old foes', and 'the United States welcomes its responsibilities to lead in this great mission'. This language was incorporated into the US National Defense Strategy document issued shortly thereafter. 'Freedom is the Almighty's gift to every man and woman in this world', he later said, adding that 'as the greatest power on earth we have an obligation to help the spread of freedom'.[1]

When all of the other reasons for engaging in a pre-emptive war against Iraq were proven wanting, the president appealed to the idea that the freedom conferred on Iraq was in and of itself an adequate justification for the war. The Iraqis were free, and that was all that really mattered. But what sort of 'freedom' is envisaged here, since, as the cultural critic Matthew Arnold long ago thoughtfully observed, 'freedom is a very good horse to ride, but to ride somewhere'.[2] To what destination, then, are the Iraqi people expected to ride the horse of freedom donated to them by force of arms?

The Bush administration's answer to this question was spelled out on 19 September 2003, when Paul Bremer, head of the Coalition Provisional Authority, promulgated four orders that included 'the full privatization of public enterprises, full ownership rights by foreign firms of Iraqi businesses, full repatriation of foreign profits . . . the opening of Iraq's banks to foreign control, national treatment for foreign companies and . . . the elimination of nearly all trade barriers'.[3] The orders were to apply to all areas of the economy, including public services, the media, manufacturing, services, transportation, finance, and construction. Only oil was exempt (presumably because of its special status as revenue producer to pay for the war and its geopolitical significance). The labour market, on the other hand, was to be strictly regulated. Strikes were effectively forbidden in key sectors and the right to unionize restricted. A highly regressive 'flat tax' (an ambitious tax-reform plan long advocated for implementation by conservatives in the US) was also imposed.

These orders were, some argued, in violation of the Geneva and Hague Conventions, since an occupying power is mandated to guard the assets of an occupied country and not sell them off.[4] Some Iraqis resisted the imposition of what the London *Economist* called a 'capitalist dream' regime upon Iraq. A member of the US-appointed Coalition Provisional Authority forcefully criticized the imposition of 'free market fundamentalism', calling it 'a flawed logic that ignores history'.[5] Though Bremer's rules may have been illegal when imposed by an occupying power, they would become legal if confirmed by a 'sovereign' government. The interim government, appointed by the US, that took over at the end of June 2004 was declared 'sovereign'. But it only had the power to confirm existing laws. Before the handover, Bremer multiplied the number of laws to specify free-market and free-trade rules in minute detail (on detailed matters such as copyright laws and intellectual property rights), expressing the hope that these institutional arrangements would 'take on a life and momentum of their own' such that they would prove very difficult to reverse.[6]

According to neoliberal theory, the sorts of measures that Bremer outlined were both necessary and sufficient for the creation of wealth and therefore for the improved well-being of the population at large. The assumption that individual freedoms are guaranteed by freedom of the market and of trade is a cardinal feature of neoliberal thinking, and it has long dominated the US stance towards the rest of the world.[7] What the US evidently sought to impose by main force on Iraq was a state apparatus whose fundamental mission was to facilitate conditions for profitable capital accumulation on the part of both domestic and foreign capital. I call this kind of state apparatus a *neoliberal state*. The freedoms it embodies reflect the interests of private property owners, businesses, multinational corporations, and financial capital. Bremer invited the Iraqis, in short, to ride their horse of freedom straight into the neoliberal corral.

The first experiment with neoliberal state formation, it is worth recalling, occurred in Chile after Pinochet's coup on the 'little September 11th' of 1973 (almost thirty years to the day before Bremer's announcement of the regime to be installed in Iraq). The coup, against the democratically elected government of Salvador Allende, was promoted by domestic business elites threatened by Allende's drive towards socialism. It was backed by US corporations, the CIA, and US Secretary of State Henry Kissinger. It violently repressed all the social movements and political organizations of the left and dismantled all forms of popular organization (such as the community health centres in poorer neighbourhoods). The labour market was 'freed' from regulatory or institutional restraints (trade union power, for example). But how was the stalled economy to be revived? The policies of import substitution (fostering national industries by subsidies or tariff protections) that had dominated Latin American attempts at economic development had fallen into disrepute, particularly in Chile, where they had never worked that well. With the whole world in economic recession, a new approach was called for.

A group of economists known as 'the Chicago boys' because of their attachment to the neoliberal theories of Milton Friedman, then teaching at the University of Chicago, was summoned to help reconstruct the Chilean economy. The story of how they were chosen is an interesting one. The US had funded training of Chilean economists at the University of Chicago since the 1950s as part of a Cold War programme to counteract left-wing tendencies in Latin America. Chicago-trained economists came to dominate at the private Catholic University in Santiago. During the early 1970s, business elites organized their opposition to Allende through a group called 'the Monday Club' and developed a working relationship with these economists, funding their work through research institutes. After General Gustavo Leigh, Pinochet's rival for power and a Keynesian, was sidelined in 1975, Pinochet brought these economists into the government, where their first job was to negotiate loans with the International Monetary Fund. Working alongside the IMF, they restructured the economy according to their theories. They reversed the nationalizations and privatized public assets, opened up natural resources (fisheries, timber, etc.) to private and unregulated exploitation (in many cases riding roughshod over the claims of indigenous inhabitants), privatized social security, and facilitated foreign direct investment and freer trade. The right of foreign companies to repatriate profits from their Chilean operations was guaranteed. Export-led growth was favoured over import substitution. The only sector reserved for the state was the key resource of copper (rather like oil in Iraq). This proved crucial to the budgetary viability of the state since copper revenues flowed exclusively into its coffers. The immediate revival of the Chilean economy in terms of growth rates, capital accumulation, and high rates of return on foreign investments was short-lived. It all went sour in the Latin American debt crisis of 1982. The result was a much more pragmatic and less ideologically driven application of neoliberal policies in the years that followed. All of this, including the pragmatism, provided helpful evidence to support the subsequent turn to neoliberalism in both Britain (under Thatcher) and the US (under Reagan) in the 1980s. Not for the first time, a brutal experiment carried out in the periphery became a model for the formulation of policies in the centre (much as experimentation with the flat tax in Iraq has been proposed under Bremer's decrees).[8]

The fact that two such obviously similar restructurings of the state apparatus occurred at such different times in quite different parts of the world under the coercive influence of the United States suggests that the grim reach of US imperial power might lie behind the rapid proliferation of neoliberal state forms throughout the world from the mid-1970s onwards. While this has undoubtedly occurred over the last thirty years, it by no means constitutes the whole story, as the domestic component of the neoliberal turn in Chile shows. It was not the US, furthermore, that forced Margaret Thatcher to take the pioneering neoliberal path she took in 1979. Nor was it the US that forced China in 1978 to set out on a path of liberalization. The partial moves towards neoliberalization in India in the 1980s and Sweden in the early 1990s cannot easily be attributed to the imperial reach of US power. The uneven geographical development of neoliberalism on the world stage has evidently been a very complex process entailing multiple determinations and not a little chaos and confusion. Why, then, did the neoliberal turn occur, and what were the forces that made it so hegemonic within global capitalism?

Why the Neoliberal Turn?

The restructuring of state forms and of international relations after the Second World War was designed to prevent a return to the catastrophic conditions that had so threatened the capitalist order in the great slump of the 1930s. It was also supposed to prevent the re-emergence of inter-state geopolitical rivalries that had led to the war. To ensure domestic peace and tranquillity, some sort of class compromise between capital and labour had to be constructed. The thinking at the time is perhaps best represented by an influential text by two eminent social scientists, Robert Dahl and Charles Lindblom, published in 1953. Both capitalism and communism in their raw forms had failed, they argued. The only way ahead was to construct the right blend of state, market, and democratic institutions to guarantee peace, inclusion, well-being, and stability.[9] Internationally, a new world order was constructed through the Bretton Woods agreements, and various institutions, such as the United Nations, the World Bank, the IMF, and the Bank of International Settlements in Basle, were set up to help stabilize international relations. Free trade in goods was encouraged under a system of fixed exchange rates anchored by the US dollar's convertibility into gold at a fixed price. Fixed exchange rates were incompatible with free flows of capital that had to be controlled, but the US had to allow the free flow of the dollar beyond its borders if the dollar was to function as the global reserve currency. This system existed under the umbrella protection of US military power. Only the Soviet Union and the Cold War placed limits on its global reach.

A variety of social democratic, Christian democratic and dirigiste states emerged in Europe after the Second World War. The US itself turned towards a liberal democratic state form, and Japan, under the close supervision of the US, built a nominally democratic but in practice highly bureaucratic state apparatus empowered to oversee the reconstruction of that country. What all of these various state forms had in common was an acceptance that the state should focus on full employment, economic growth, and the welfare of its citizens, and that state power should be freely deployed, alongside of or, if necessary, intervening in or even substituting for market processes to achieve these ends. Fiscal and monetary policies usually dubbed 'Keynesian' were widely deployed to dampen business cycles and to ensure reasonably full employment. A 'class compromise' between capital and labour was generally advocated as the key guarantor of domestic peace and tranquillity. States actively intervened in industrial policy and moved to set standards for the social wage by constructing a variety of welfare systems (health care, education, and the like).

This form of political-economic organization is now usually referred to as 'embedded liberalism' to signal how market processes and entrepreneurial and corporate activities were surrounded by a web of social and political constraints and a regulatory environment that sometimes restrained but in other instances led the way in economic and industrial strategy.[10] State-led planning and in some instances state ownership of key sectors (coal, steel, automobiles) were not uncommon (for example in Britain, France, and Italy). The neoliberal project is to disembed capital from these constraints.

Embedded liberalism delivered high rates of economic growth in the advanced capitalist countries during the 1950s and 1960s.[11] In part this depended on the largesse of the US in being prepared to run deficits with the rest of the world and to absorb any excess product within its borders. This system conferred benefits such as expanding export markets (most obviously for Japan but also unevenly across South America and to some other countries of South-East Asia), but attempts to export 'development' to much of the rest of the world largely stalled. For much of the Third World, particularly Africa, embedded liberalism remained a pipe dream. The subsequent drive towards neoliberalization after 1980 entailed little material change in their impoverished condition. In the advanced capitalist countries, redistributive politics (including some degree of political integration of working-class trade union power and support for collective bargaining), controls over the free mobility of capital (some degree of financial repression through capital controls in particular), expanded public expenditures and welfare state-building, active state interventions in the economy, and some degree of planning of development went hand in hand with relatively high rates of growth. The business cycle was successfully controlled through the application of Keynesian fiscal and monetary policies. A social and moral economy (sometimes supported by a strong sense of national identity) was fostered through the activities of an interventionist state. The state in effect became a force field that internalized class relations. Working-class institutions such as labour unions and political parties of the left had a very real influence within the state apparatus.

By the end of the 1960s embedded liberalism began to break down, both internationally and within domestic economies. Signs of a serious crisis of capital accumulation were everywhere apparent. Unemployment and inflation were both surging everywhere, ushering in a global phase of 'stagflation' that lasted throughout much of the 1970s. Fiscal crises of various states (Britain, for example, had to be bailed out by the IMF in 1975–6) resulted as tax revenues plunged and social expenditures soared. Keynesian policies were no longer working. Even before the Arab-Israeli War and the OPEC oil embargo of 1973, the Bretton Woods system of fixed exchange rates backed by gold reserves had fallen into disarray. The porosity of state boundaries with respect to capital flows put stress on the system of fixed exchange rates. US dollars had flooded the world and escaped US controls by being deposited in European banks. Fixed exchange rates were therefore abandoned in 1971. Gold could no longer function as the metallic base of international money; exchange rates were allowed to float, and attempts to control the float were soon abandoned. The embedded liberalism that had delivered high rates of growth to at least the advanced capitalist countries after 1945 was clearly exhausted and was no longer working. Some alternative was called for if the crisis was to be overcome.

One answer was to deepen state control and regulation of the economy through corporatist strategies (including, if necessary, curbing the aspirations of labour and popular movements through austerity measures, incomes policies, and even wage and price controls). This answer was advanced by socialist and communist parties in Europe, with hopes pinned on innovative experiments in governance in places such as communist-controlled 'Red Bologna' in Italy, on the revolutionary transformation of Portugal in the wake of the collapse of fascism, on the turn towards a more open market socialism and ideas of 'Eurocommunism', particularly in Italy (under the leadership of Berlinguer) and in Spain (under the influence of Carrillo), or on the expansion of the strong social democratic welfare state tradition in Scandinavia. The left assembled considerable popular power behind such programmes, coming close to power in

Italy and actually acquiring state power in Portugal, France, Spain, and Britain, while retaining power in Scandinavia. Even in the United States, a Congress controlled by the Democratic Party legislated a huge wave of regulatory reform in the early 1970s (signed into law by Richard Nixon, a Republican president, who in the process even went so far as to remark that 'we are all Keynesians now'), governing everything from environmental protection to occupational safety and health, civil rights, and consumer protection.[12] But the left failed to go much beyond traditional social democratic and corporatist solutions and these had by the mid-1970s proven inconsistent with the requirements of capital accumulation. The effect was to polarize debate between those ranged behind social democracy and central planning on the one hand (who, when in power, as in the case of the British Labour Party, often ended up trying to curb, usually for pragmatic reasons, the aspirations of their own constituencies), and the interests of all those concerned with liberating corporate and business power and re-establishing market freedoms on the other. By the mid-1970s, the interests of the latter group came to the fore. But how were the conditions for the resumption of active capital accumulation to be restored?

How and why neoliberalism emerged victorious as the single answer to this question is the crux of the problem we have to solve. In retrospect it may seem as if the answer was both inevitable and obvious, but at the time, I think it is fair to say, no one really knew or understood with any certainty what kind of answer would work and how. The capitalist world stumbled towards neoliberalization as the answer through a series of gyrations and chaotic experiments that really only converged as a new orthodoxy with the articulation of what became known as the 'Washington Consensus' in the 1990s. By then, both Clinton and Blair could easily have reversed Nixon's earlier statement and simply said 'We are all neoliberals now.' The uneven geographical development of neoliberalism, its frequently partial and lop-sided application from one state and social formation to another, testifies to the tentativeness of neoliberal solutions and the complex ways in which political forces, historical traditions, and existing institutional arrangements all shaped why and how the process of neoliberalization actually occurred.

There is, however, one element within this transition that deserves specific attention. The crisis of capital accumulation in the 1970s affected everyone through the combination of rising unemployment and accelerating inflation (Figure 1.1). Discontent

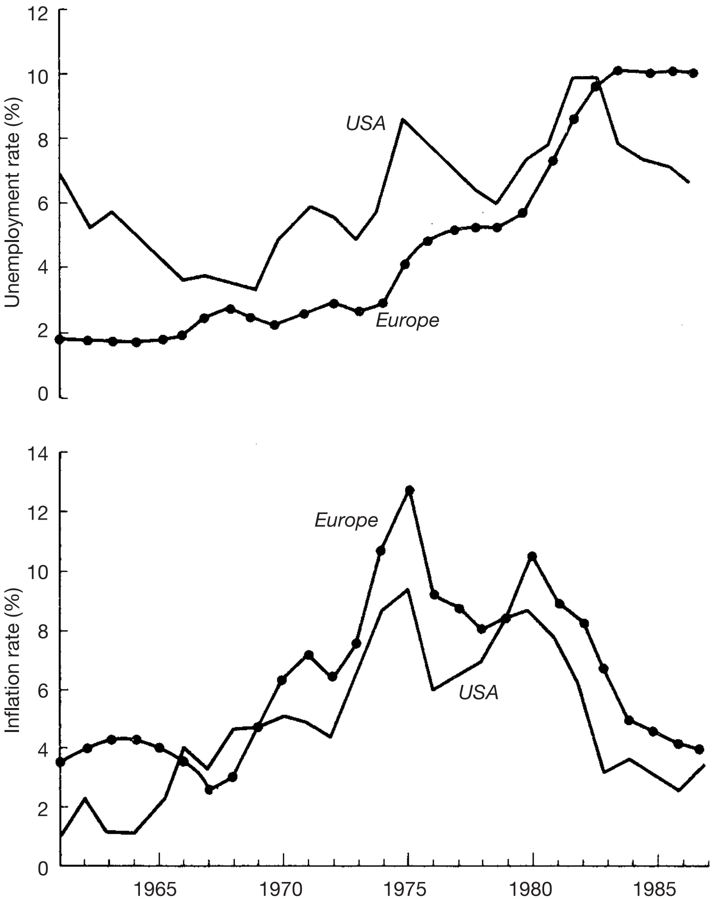


Figure 1.1 The economic crisis of the 1970s: inflation and unemployment in the US and Europe, 1960–1987
Source: Harvey, *The Condition of Postmodernity*.

was widespread and the conjoining of labour and urban social movements throughout much of the advanced capitalist world appeared to point towards the emergence of a socialist alternative to the social compromise between capital and labour that had grounded capital accumulation so successfully in the post-war period. Communist and socialist parties were gaining ground, if not taking power, across much of Europe and even in the United States popular forces were agitating for widespread reforms and state interventions. There was, in this, a clear *political* threat to economic elites and ruling classes everywhere, both in the advanced capitalist countries (such as Italy, France, Spain, and Portugal) and in many developing countries (such as Chile, Mexico, and Argentina). In Sweden, for example, what was known as the Rehn–Meidner plan literally offered to gradually buy out the owners' share in their own businesses and turn the country into a worker/share-owner democracy. But, beyond this, the *economic* threat to the position of ruling elites and classes was now becoming palpable. One condition of the post-war settlement in almost all countries was that the economic power of the upper classes be restrained and that labour be accorded a much larger share of the economic pie. In the US, for example, the share of the national income taken by the top 1 per cent of income earners fell from a pre-war high of 16 per cent to less than 8 per cent by the end of the Second World War, and stayed close to that level for nearly three decades. While growth was strong this restraint seemed not to matter. To have a stable share of an increasing pie is one thing. But when growth collapsed in the 1970s, when real interest rates went negative and paltry dividends and profits were the norm, then upper classes everywhere felt threatened. In the US the control of wealth (as opposed to income) by the top 1 per cent of the population had remained fairly stable throughout the twentieth century. But in the 1970s it plunged precipitously (Figure 1.2) as asset values (stocks, property, savings) collapsed. The upper classes had to move decisively if they were to protect themselves from political and economic annihilation.

The coup in Chile and the military takeover in Argentina, promoted internally by the upper classes with US support, provided one kind of solution. The subsequent Chilean experiment with

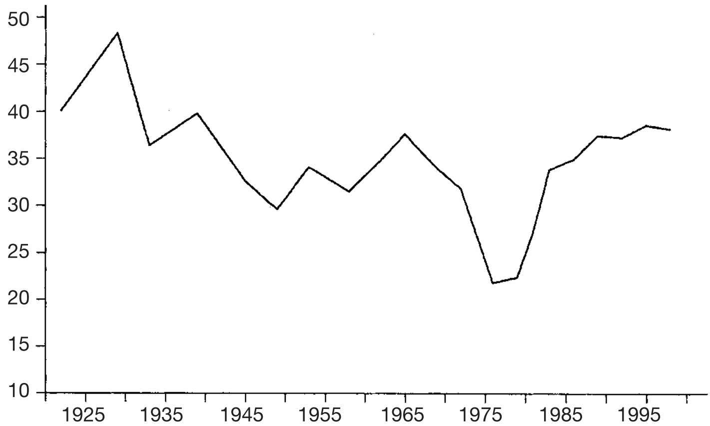


Figure 1.2 The wealth crash of the 1970s: share of assets held by the top 1% of the US population, 1922–1998
Source: Duménil and Lévy, *Capital Resurgent*.

neoliberalism demonstrated that the benefits of revived capital accumulation were highly skewed under forced privatization. The country and its ruling elites, along with foreign investors, did extremely well in the early stages. Redistributive effects and increasing social inequality have in fact been such a persistent feature of neoliberalization as to be regarded as structural to the whole project. Gérard Duménil and Dominique Lévy, after careful reconstruction of the data, have concluded that neoliberalization was from the very beginning a project to achieve the restoration of class power. After the implementation of neoliberal policies in the late 1970s, the share of national income of the top 1 per cent of income earners in the US soared, to reach 15 per cent (very close to its pre-Second World War share) by the end of the century. The top 0.1 per cent of income earners in the US increased their share of the national income from 2 per cent in 1978 to over 6 per cent by 1999, while the ratio of the median compensation of workers to the salaries of CEOs increased from just over 30 to 1 in 1970 to nearly 500 to 1 by 2000 (Figures 1.3 and 1.4). Almost certainly, with the Bush administration's tax reforms now taking effect, the concentration of income and wealth in the upper echelons of society is

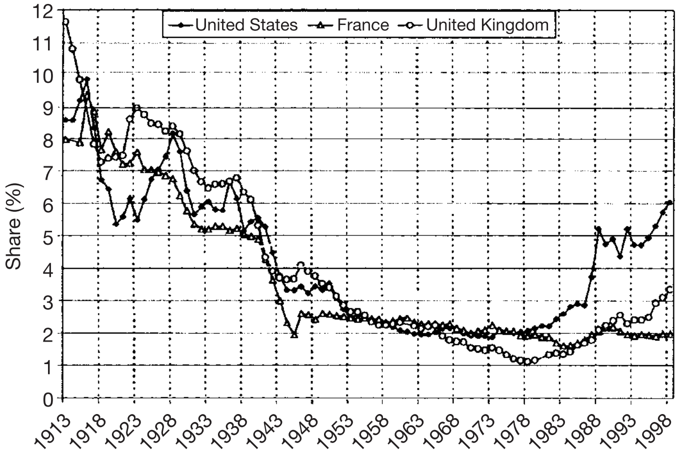
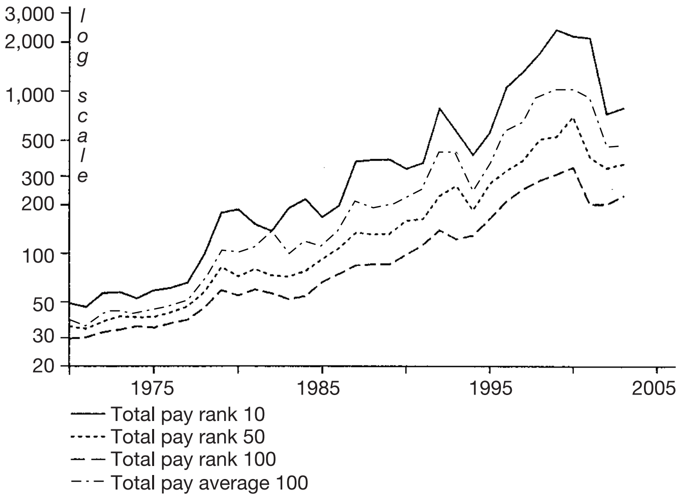


Figure 1.3 The restoration of class power: share in national income of the top 0.1% of the population, US, Britain, and France, 1913–1998

Source: Task Force on Inequality and American Democracy, *American Democracy in an Age of Rising Inequality*.

continuing apace because the estate tax (a tax on wealth) is being phased out and taxation on income from investments and capital gains is being diminished, while taxation on wages and salaries is maintained.[13]

The US is not alone in this: the top 1 per cent of income earners in Britain have doubled their share of the national income from 6.5 per cent to 13 per cent since 1982. And when we look further afield we see extraordinary concentrations of wealth and power emerging all over the place. A small and powerful oligarchy arose in Russia after neoliberal 'shock therapy' had been administered there in the 1990s. Extraordinary surges in income inequalities and wealth have occurred in China as it has adopted free-market-oriented practices. The wave of privatization in Mexico after 1992 catapulted a few individuals (such as Carlos Slim) almost overnight into Fortune's list of the world's wealthiest people. Globally, 'the countries of Eastern Europe and the CIS have registered some of the largest increases ever . . . in social inequality. OECD countries also



The first three curves show the rise of the pay of CEOs according to their rank in the hierarchy of remunerations: 10th, 50th, and 100th. The other curve (·—·—) corresponds to the average pay of the 100 CEOs with higher remunerations. Note that 1,000 means 1,000 times the average salary.

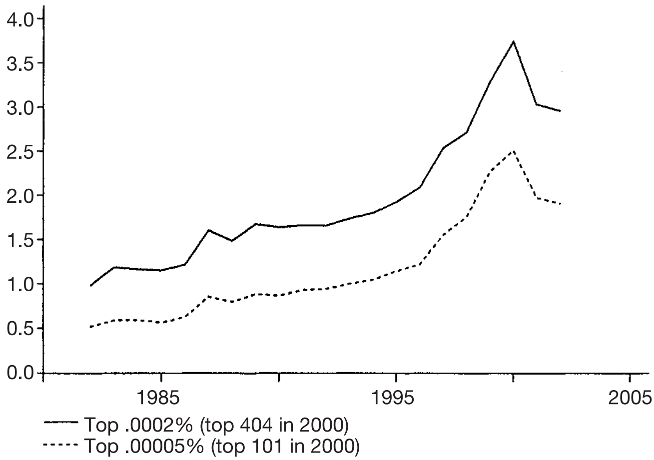


Figure 1.4 The concentration of wealth and earning power in the US: CEO remuneration in relation to average US salaries, 1970–2003, and wealth shares of the richest families, 1982–2002

Source: Duménil and Lévy, 'Neoliberal Income Trends'.

registered big increases in inequality after the 1980s', while 'the income gap between the fifth of the world's people living in the richest countries and the fifth in the poorest was 74 to 1 in 1997, up from 60 to 1 in 1990 and 30 to 1 in 1960'.[14] While there are exceptions to this trend (several East and South-East Asian countries have so far contained income inequalities within reasonable bounds, as has France—see Figure 1.3), the evidence strongly suggests that the neoliberal turn is in some way and to some degree associated with the restoration or reconstruction of the power of economic elites.

We can, therefore, interpret neoliberalization either as a *utopian* project to realize a theoretical design for the reorganization of international capitalism or as a *political* project to re-establish the conditions for capital accumulation and to restore the power of economic elites. In what follows I shall argue that the second of these objectives has in practice dominated. Neoliberalization has not been very effective in revitalizing global capital accumulation, but it has succeeded remarkably well in restoring, or in some instances (as in Russia and China) creating, the power of an economic elite. The theoretical utopianism of neoliberal argument has, I conclude, primarily worked as a system of justification and legitimation for whatever needed to be done to achieve this goal. The evidence suggests, moreover, that when neoliberal principles clash with the need to restore or sustain elite power, then the principles are either abandoned or become so twisted as to be unrecognizable. This in no way denies the power of ideas to act as a force for historical-geographical change. But it does point to a creative tension between the power of neoliberal ideas and the actual practices of neoliberalization that have transformed how global capitalism has been working over the last three decades.

The Rise of Neoliberal Theory

Neoliberalism as a potential antidote to threats to the capitalist social order and as a solution to capitalism's ills had long been lurking in the wings of public policy. A small and exclusive group of passionate advocates—mainly academic economists, historians, and philosophers—had gathered together around the renowned

Austrian political philosopher Friedrich von Hayek to create the Mont Pelerin Society (named after the Swiss spa where they first met) in 1947 (the notables included Ludvig von Mises, the economist Milton Friedman, and even, for a time, the noted philosopher Karl Popper). The founding statement of the society read as follows:

> The central values of civilization are in danger. Over large stretches of the earth's surface the essential conditions of human dignity and freedom have already disappeared. In others they are under constant menace from the development of current tendencies of policy. The position of the individual and the voluntary group are progressively undermined by extensions of arbitrary power. Even that most precious possession of Western Man, freedom of thought and expression, is threatened by the spread of creeds which, claiming the privilege of tolerance when in the position of a minority, seek only to establish a position of power in which they can suppress and obliterate all views but their own.
>
> The group holds that these developments have been fostered by the growth of a view of history which denies all absolute moral standards and by the growth of theories which question the desirability of the rule of law. It holds further that they have been fostered by a decline of belief in private property and the competitive market; for without the diffused power and initiative associated with these institutions it is difficult to imagine a society in which freedom may be effectively preserved.[15]

The group's members depicted themselves as 'liberals' (in the traditional European sense) because of their fundamental commitment to ideals of personal freedom. The neoliberal label signalled their adherence to those free market principles of neoclassical economics that had emerged in the second half of the nineteenth century (thanks to the work of Alfred Marshall, William Stanley Jevons, and Leon Walras) to displace the classical theories of Adam Smith, David Ricardo, and, of course, Karl Marx. Yet they also held to Adam Smith's view that the hidden hand of the market was the best device for mobilizing even the basest of human instincts such as gluttony, greed, and the desire for wealth and power for the benefit of all. Neoliberal doctrine was therefore deeply opposed to state interventionist theories, such as those of John Maynard Keynes, which rose to prominence in the 1930s in response to the Great Depression. Many policy-makers after the Second World War looked to Keynesian theory to guide them as they sought to keep the business cycle and recessions under control. The neoliberals were even more fiercely opposed to theories of centralized state planning, such as those advanced by Oscar Lange working close to the Marxist tradition. State decisions, they argued, were bound to be politically biased depending upon the strength of the interest groups involved (such as unions, environmentalists, or trade lobbies). State decisions on matters of investment and capital accumulation were bound to be wrong because the information available to the state could not rival that contained in market signals.

This theoretical framework is not, as several commentators have pointed out, entirely coherent.[16] The scientific rigour of its neoclassical economics does not sit easily with its political commitment to ideals of individual freedom, nor does its supposed distrust of all state power fit with the need for a strong and if necessary coercive state that will defend the rights of private property, individual liberties, and entrepreneurial freedoms. The juridical trick of defining corporations as individuals before the law introduces its own biases, rendering ironic John D. Rockefeller's personal credo etched in stone in the Rockefeller Center in New York City, where he places 'the supreme worth of the individual' above all else. And there are, as we shall see, enough contradictions in the neoliberal position to render evolving neoliberal practices (vis-à-vis issues such as monopoly power and market failures) unrecognizable in relation to the seeming purity of neoliberal doctrine. We have to pay careful attention, therefore, to the tension between the theory of neoliberalism and the actual pragmatics of neoliberalization.

Hayek, author of key texts such as *The Constitution of Liberty*, presciently argued that the battle for ideas was key, and that it would probably take at least a generation for that battle to be won, not only against Marxism but against socialism, state planning, and Keynesian interventionism. The Mont Pelerin group garnered financial and political support. In the US in particular, a powerful group of wealthy individuals and corporate leaders who were viscerally opposed to all forms of state intervention and regulation, and even to internationalism sought to organize opposition to what they saw as an emerging consensus for pursuing a mixed economy. Fearful of how the alliance with the Soviet Union and the command economy constructed within the US during the Second World War might play out politically in a post-war setting, they were ready to embrace anything from McCarthyism to neoliberal think-tanks to protect and enhance their power. Yet this movement remained on the margins of both policy and academic influence until the troubled years of the 1970s. At that point it began to move centre-stage, particularly in the US and Britain, nurtured in various well-financed think-tanks (offshoots of the Mont Pelerin Society, such as the Institute of Economic Affairs in London and the Heritage Foundation in Washington), as well as through its growing influence within the academy, particularly at the University of Chicago, where Milton Friedman dominated. Neoliberal theory gained in academic respectability by the award of the Nobel Prize in economics to Hayek in 1974 and Friedman in 1976. This particular prize, though it assumed the aura of Nobel, had nothing to do with the other prizes and was under the tight control of Sweden's banking elite. Neoliberal theory, particularly in its monetarist guise, began to exert practical influence in a variety of policy fields. During the Carter presidency, for example, deregulation of the economy emerged as one of the answers to the chronic state of stagflation that had prevailed in the US throughout the 1970s. But the dramatic consolidation of neoliberalism as a new economic orthodoxy regulating public policy at the state level in the advanced capitalist world occurred in the United States and Britain in 1979.

In May of that year Margaret Thatcher was elected in Britain with a strong mandate to reform the economy. Under the influence of Keith Joseph, a very active and committed publicist and polemicist with strong connections to the neoliberal Institute of Economic Affairs, she accepted that Keynesianism had to be abandoned and that monetarist 'supply-side' solutions were essential to cure the stagflation that had characterized the British economy during the 1970s. She recognized that this meant nothing short of a revolution in fiscal and social policies, and immediately signalled a fierce determination to have done with the institutions and political ways of the social democratic state that had been consolidated in Britain after 1945. This entailed confronting trade union power, attacking all forms of social solidarity that hindered competitive flexibility (such as those expressed through municipal governance, and including the power of many professionals and their associations), dismantling or rolling back the commitments of the welfare state, the privatization of public enterprises (including social housing), reducing taxes, encouraging entrepreneurial initiative, and creating a favourable business climate to induce a strong inflow of foreign investment (particularly from Japan). There was, she famously declared, 'no such thing as society, only individual men and women'—and, she subsequently added, their families. All forms of social solidarity were to be dissolved in favour of individualism, private property, personal responsibility, and family values. The ideological assault along these lines that flowed from Thatcher's rhetoric was relentless.[17] 'Economics are the method', she said, 'but the object is to change the soul.' And change it she did, though in ways that were by no means comprehensive and complete, let alone free of political costs.

In October 1979 Paul Volcker, chairman of the US Federal Reserve Bank under President Carter, engineered a draconian shift in US monetary policy.[18] The long-standing commitment in the US liberal democratic state to the principles of the New Deal, which meant broadly Keynesian fiscal and monetary policies with full employment as the key objective, was abandoned in favour of a policy designed to quell inflation no matter what the consequences might be for employment. The real rate of interest, which had often been negative during the double-digit inflationary surge of the 1970s, was rendered positive by fiat of the Federal Reserve (Figure 1.5). The nominal rate of interest was raised overnight and, after a few ups and downs, by July 1981 stood close to 20 per cent. Thus began 'a long deep recession that would empty factories and break unions in the US and drive debtor countries to the brink of insolvency, beginning the long era of structural adjustment'.[19] This, Volcker argued, was the only way out of the grumbling crisis of stagflation that had characterized the US and much of the global economy throughout the 1970s.

The Volcker shock, as it has since come to be known, has to be

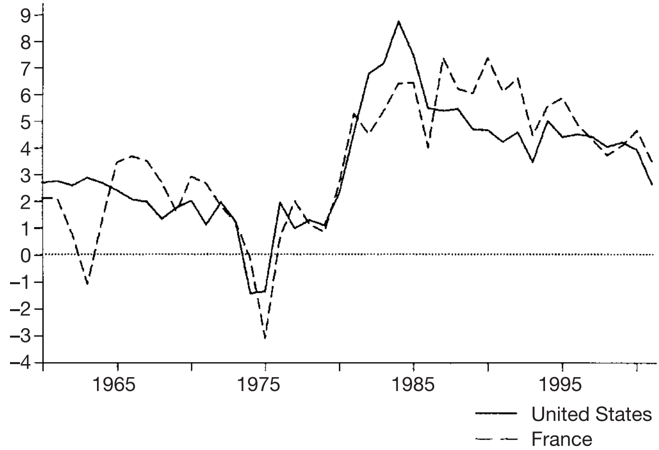


Figure 1.5 The 'Volcker shock': movements in the real rate of interest, US and France, 1960–2001
Source: Duménil and Lévy, *Capital Resurgent*.

interpreted as a necessary but not sufficient condition for neoliberalization. Some central banks had long emphasized anti-inflationary fiscal responsibility and adopted policies that were closer to monetarism than to Keynesian orthodoxy. In the West German case this derived from historical memories of the runaway inflation that had destroyed the Weimar Republic in the 1920s (setting the stage for the rise of fascism) and the equally dangerous inflation that occurred at the end of the Second World War. The IMF had long set itself against excessive debt creation and urged, if not mandated, fiscal restraints and budgetary austerity on client states. But in all these cases this monetarism was paralleled by acceptance of strong union power and a political commitment to build a strong welfare state. The turn to neoliberalism thus depended not only on adopting monetarism but on the unfolding of government policies in many other arenas.

Ronald Reagan's victory over Carter in 1980 proved crucial, even though Carter had shifted uneasily towards deregulation (of airlines and trucking) as a partial solution to the crisis of stagflation. Reagan's advisers were convinced that Volcker's monetarist 'medicine' for a sick and stagnant economy was right on target. Volcker was supported in and reappointed to his position as chair of the Federal Reserve. The Reagan administration then provided the requisite political backing through further deregulation, tax cuts, budget cuts, and attacks on trade union and professional power. Reagan faced down PATCO, the air traffic controllers' union, in a lengthy and bitter strike in 1981. This signalled an all-out assault on the powers of organized labour at the very moment when the Volcker-inspired recession was generating high levels of unemployment (10 per cent or more). But PATCO was more than an ordinary union: it was a white-collar union which had the character of a skilled professional association. It was, therefore, an icon of middle-class rather than working-class unionism. The effect on the condition of labour across the board was dramatic—perhaps best captured by the fact that the Federal minimum wage, which stood on a par with the poverty level in 1980, had fallen to 30 per cent below that level by 1990. The long decline in real wage levels then began in earnest.

Reagan's appointments to positions of power on issues such as environmental regulation, occupational safety, and health, took the

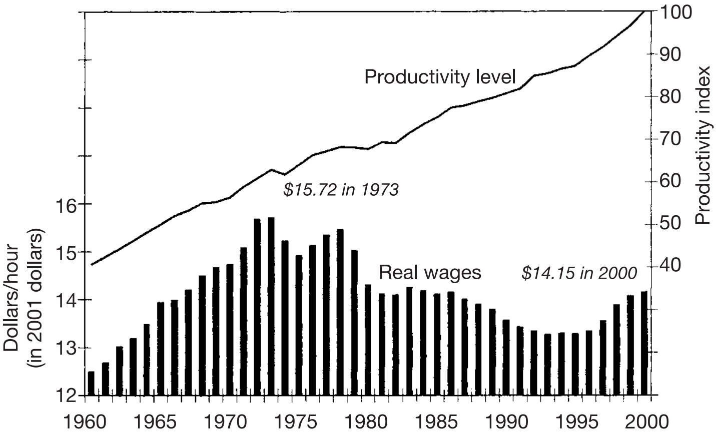


Figure 1.6 The attack on labour: real wages and productivity in the US, 1960–2000

Source: Pollin, *Contours of Descent*.

campaign against big government to ever higher levels. The deregulation of everything from airlines and telecommunications to finance opened up new zones of untrammelled market freedoms for powerful corporate interests. Tax breaks on investment effectively subsidized the movement of capital away from the unionized north-east and midwest and into the non-union and weakly regulated south and west. Finance capital increasingly looked abroad for higher rates of return. Deindustrialization at home and moves to take production abroad became much more common. The market, depicted ideologically as the way to foster competition and innovation, became a vehicle for the consolidation of monopoly power. Corporate taxes were reduced dramatically, and the top personal tax rate was reduced from 70 to 28 per cent in what was billed as 'the largest tax cut in history' (Figure 1.7).

And so began the momentous shift towards greater social inequality and the restoration of economic power to the upper class.

There was, however, one other concomitant shift that also impelled the movement towards neoliberalization during the

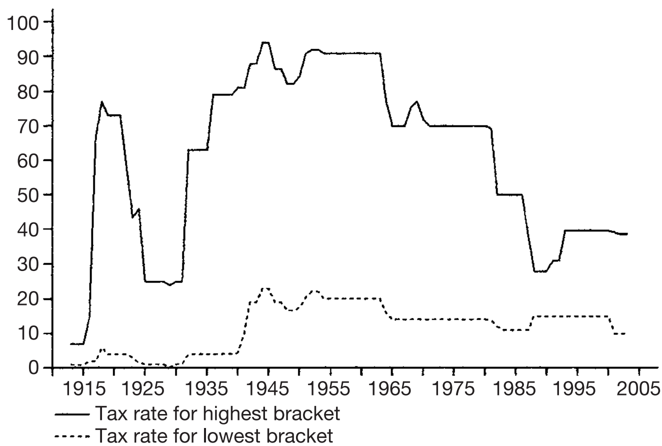


Figure 1.7 The tax revolt of the upper class: US tax rates for higher and lower brackets, 1913–2003
Source: Duménil and Lévy, 'Neoliberal Income Trends'.

1970s. The OPEC oil price hike that came with the oil embargo of 1973 placed vast amounts of financial power at the disposal of the oil-producing states such as Saudi Arabia, Kuwait, and Abu Dhabi. We now know from British intelligence reports that the US was actively preparing to invade these countries in 1973 in order to restore the flow of oil and bring down oil prices. We also know that the Saudis agreed at that time, presumably under military pressure if not open threat from the US, to recycle all of their petrodollars through the New York investment banks.[20] The latter suddenly found themselves in command of massive funds for which they needed to find profitable outlets. The options within the US, given the depressed economic conditions and low rates of return in the mid-1970s, were not good. More profitable opportunities had to be sought out abroad. Governments seemed the safest bet because, as Walter Wriston, head of Citibank, famously put it, governments can't move or disappear. And many governments in the developing world, hitherto starved of funds, were anxious enough to borrow. For this to occur required, however, open entry and reasonably secure conditions for lending. The New York investment banks looked to the US imperial tradition both to prise open new investment opportunities and to protect their foreign operations.

The US imperial tradition had been long in the making, and to great degree defined itself against the imperial traditions of Britain, France, Holland, and other European powers.[21] While the US had toyed with colonial conquest at the end of the nineteenth century, it evolved a more open system of imperialism without colonies during the twentieth century. The paradigm case was worked out in Nicaragua in the 1920s and 1930s, when US marines were deployed to protect US interests but found themselves embroiled in a lengthy and difficult guerrilla insurgency led by Sandino. The answer was to find a local strongman—in this case Somoza—and to provide economic and military assistance to him and his family and immediate allies so that they could repress or buy off opposition and accumulate considerable wealth and power for themselves. In return they would always keep their country open to the operations of US capital and support, and if necessary promote US interests, both in the country and in the region (in the Nicaraguan case, Central America) as a whole. This was the model that was deployed after the Second World War during the phase of global decolonization imposed upon the European powers at US insistence. For example, the CIA engineered the coup that overthrew the democratically elected Mosaddeq government in Iran in 1953 and installed the Shah of Iran, who gave the oil contracts to US companies (and did not return the assets to the British companies that Mossadeq had nationalized). The shah also became one of the key guardians of US interests in the Middle Eastern oil region.

In the post-war period, much of the non-communist world was opened up to US domination by tactics of this sort. This became the method of choice to fight off the threat of communist insurgencies and revolution, entailing an anti-democratic (and even more emphatically anti-populist and anti-socialist/communist) strategy on the part of the US that put the US more and more in alliance with repressive military dictatorships and authoritarian regimes (most spectacularly, of course, throughout Latin America). The stories told in John Perkins's *Confessions of an Economic Hit Man* are full of the ugly and unsavoury details of how this was all too often done. US interests consequently became more rather than less vulnerable in the struggle against international communism. While the consent of local ruling elites could be purchased easily enough, the need to coerce oppositional or social democratic movements (such as Allende's in Chile) associated the US with a long history of largely covert violence against popular movements throughout much of the developing world.

It was in this context that the surplus funds being recycled through the New York investment banks were dispersed throughout the world. Before 1973, most US foreign investment was of the direct sort, mainly concerned with the exploitation of raw material resources (oil, minerals, raw materials, agricultural products) or the cultivation of specific markets (telecommunications, automobiles, etc.) in Europe and Latin America. The New York investment banks had always been active internationally, but after 1973 they became even more so, though now far more focused on lending capital to foreign governments.[22] This required the liberalization of international credit and financial markets, and the US government began actively to promote and support this strategy globally during the 1970s. Hungry for credit, developing countries were encouraged to borrow heavily, though at rates that were advantageous to the New York bankers.[23] Since the loans were designated in US dollars, however, any modest, let alone precipitous, rise in US interest rates could easily push vulnerable countries into default. The New York investment banks would then be exposed to serious losses.

The first major test case of this came in the wake of the Volcker shock that drove Mexico into default in 1982–4. The Reagan administration, which had seriously thought of withdrawing support for the IMF in its first year in office, found a way to put together the powers of the US Treasury and the IMF to resolve the difficulty by rolling over the debt, but did so in return for neoliberal reforms. This treatment became standard after what Stiglitz refers to as a 'purge' of all Keynesian influences from the IMF in 1982. The IMF and the World Bank thereafter became centres for the propagation and enforcement of 'free market fundamentalism' and neoliberal orthodoxy. In return for debt rescheduling, indebted countries were required to implement institutional reforms, such as cuts in welfare expenditures, more flexible labour market laws, and privatization. Thus was 'structural adjustment' invented. Mexico was one of the first states drawn into what was going to become a growing column of neoliberal state apparatuses worldwide.[24]

What the Mexico case demonstrated, however, was a key difference between liberal and neoliberal practice: under the former, lenders take the losses that arise from bad investment decisions, while under the latter the borrowers are forced by state and international powers to take on board the cost of debt repayment no matter what the consequences for the livelihood and well-being of the local population. If this required the surrender of assets to foreign companies at fire-sale prices, then so be it. This, it turns out, is not consistent with neoliberal theory. One effect, as Duménil and Lévy show, was to permit US owners of capital to extract high rates of return from the rest of the world during the 1980s and 1990s (Figures 1.8 and 1.9).[25] The restoration of power to an economic elite or upper class in the US and elsewhere in the advanced capitalist countries drew heavily on surpluses extracted

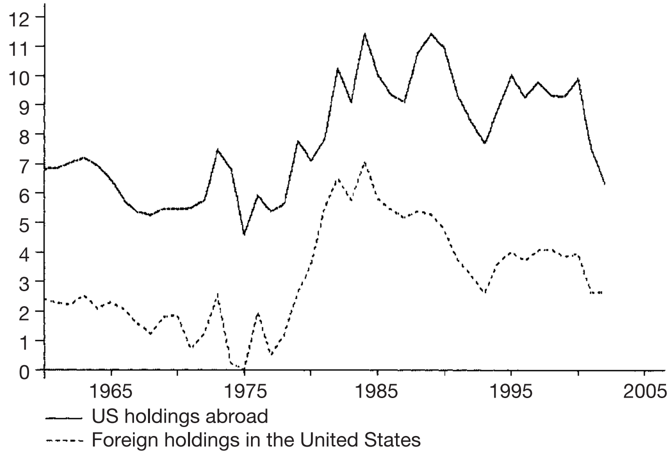


Figure 1.8 Extracting surpluses from abroad: rates of return on foreign and domestic investments in the US, 1960–2002
Source: Duménil and Lévy, 'The Economics of US Imperialism'.

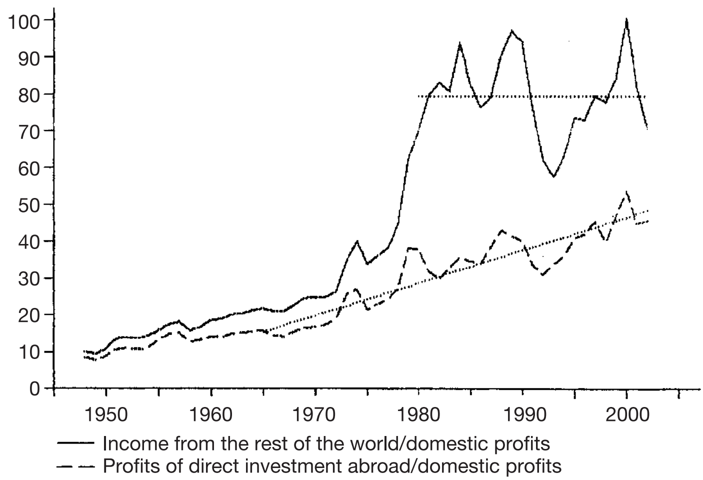


Figure 1.9 The flow of tribute into the US: profits and capital income from the rest of the world in relation to domestic profits
Source: Duménil and Lévy, 'Neoliberal Dynamics: Towards A New Phase?'.

from the rest of the world through international flows and structural adjustment practices.

The Meaning of Class Power

But what exactly is meant here by 'class'? This is always a somewhat shadowy (some would even say dubious) concept. Neoliberalization has, in any case, entailed its redefinition. This poses a problem. If neoliberalization has been a vehicle for the restoration of class power, then we should be able to identify the class forces behind it and those that have benefited from it. But this is difficult to do when 'class' is not a stable social configuration. In some cases 'traditional' strata have managed to hang on to a consistent power base (often organized through family and kinship). But in other instances neoliberalization has been accompanied by a reconfiguration of what constitutes an upper class. Margaret Thatcher, for example, attacked some of the entrenched forms of class power in Britain. She went against the aristocratic tradition that dominated in the military, the judiciary, and the financial elite in the City of London and many segments of industry, and sided with the brash entrepreneurs and the nouveaux riches. She supported, and was usually supported by, this new class of entrepreneurs (such as Richard Branson, Lord Hanson, and George Soros). The traditional wing of her own Conservative Party was appalled. In the US, the rising power and significance of the financiers and the CEOs of large corporations, as well as the immense burst of activity in wholly new sectors (such as computing and the internet, media, and retailing) changed the locus of upper-class economic power significantly. While neoliberalization may have been about the restoration of class power, it has not necessarily meant the restoration of economic power to the same people.

But, as the contrasting cases of the US and Britain illustrate, 'class' means different things in different places, and in some instances (for example in the US) it is often held to have no meaning at all. In addition there have been strong currents of differentiation in terms of class identity formation and re-formation in different parts of the world. In Indonesia, Malaysia, and the Philippines, for example, economic power became strongly concentrated among a few ethnic-minority Chinese, and the mode of acquisition of that economic power was quite different from that in Australia or the US (it was heavily concentrated in trading activities and entailed the cornering of markets[26]). And the rise of the seven oligarchs in Russia derived from the quite unique configuration of circumstances that held in the wake of the collapse of the Soviet Union.

Nevertheless, there are some general trends that can be identified. The first is for the privileges of ownership and management of capitalist enterprises—traditionally separated—to fuse by paying CEOs (managers) in stock options (ownership titles). Stock values rather than production then become the guiding light of economic activity and, as later became apparent with the collapse of companies such as Enron, the speculative temptations that resulted from this could become overwhelming. The second trend has been to dramatically reduce the historical gap between money capital earning dividends and interest, on the one hand, and production, manufacturing, or merchant capital looking to gain profits on the other. This separation had at various times in the past produced conflicts between financiers, producers, and merchants. In Britain, for example, government policy in the 1960s catered primarily to the requirements of the financiers in the City of London, often to the detriment of domestic manufacturing, and in the 1960s conflicts in the US between financiers and manufacturing corporations had often surfaced. During the 1970s much of this conflict either disappeared or took new forms. The large corporations became more and more financial in their orientation, even when, as in the automobile sector, they were engaging in production. Since 1980 or so it has not been uncommon for corporations to report losses in production offset by gains from financial operations (everything from credit and insurance operations to speculating in volatile currency and futures markets). Mergers across sectors conjoined production, merchanting, real estate, and financial interests in new ways to produce diversified conglomerates. When US Steel changed its name to USX (purchasing strong stakes in insurance) the chairman of the board, James Roderick, replied to the question 'What is X?' with the simple answer 'X stands for money.'[27]

All of this connected to the strong burst in activity and power within the world of finance. Increasingly freed from the regulatory constraints and barriers that had hitherto confined its field of action, financial activity could flourish as never before, eventually everywhere. A wave of innovations occurred in financial services to produce not only far more sophisticated global interconnections but also new kinds of financial markets based on securitization, derivatives, and all manner of futures trading. Neoliberalization has meant, in short, the financialization of everything. This deepened the hold of finance over all other areas of the economy, as well as over the state apparatus and, as Randy Martin points out, daily life.[28] It also introduced an accelerating volatility into global exchange relations. There was unquestionably a power shift away from production to the world of finance. Gains in manufacturing capacity no longer necessarily meant rising per capita incomes, but concentration on financial services certainly did. For this reason, the support of financial institutions and the integrity of the financial system became the central concern of the collectivity of neoliberal states (such as the group comprising the world's richest countries known as the G7). In the event of a conflict between Main Street and Wall Street, the latter was to be favoured. The real possibility then arises that while Wall Street does well the rest of the US (as well as the rest of the world) does badly. And for several years, particularly during the 1990s, this is exactly what happened. While the slogan was often advanced in the 1960s that what was good for General Motors was good for the US, this had changed by the 1990s into the slogan that what is good for Wall Street is all that matters.

One substantial core of rising class power under neoliberalism lies, therefore, with the CEOs, the key operators on corporate boards, and the leaders in the financial, legal, and technical apparatuses that surround this inner sanctum of capitalist activity.[29] The power of the actual owners of capital, the stockholders, has, however, been somewhat diminished unless they can gain a sufficiently large voting interest to affect corporate policy. Shareholders have on occasion been bilked of millions by the operations of the CEOs and their financial advisers. Speculative gains have also made it possible to amass enormous fortunes within a very short period of time (examples are Warren Buffett and George Soros).

But it would be wrong to confine the notion of the upper class to this group alone. The opening up of entrepreneurial opportunities, as well as new structures in trading relations, have allowed substantially new processes of class formation to emerge. Fast fortunes were made in new sectors of the economy such as biotechnology and information technologies (for example by Bill Gates and Paul Allen). New market relations opened up all manner of possibilities to buy cheap and sell dear, if not to actually corner markets in such a way as to build fortunes that can either extend horizontally (as in the case of Rupert Murdoch's sprawling global media empire) or be diversified into all manner of businesses, extending backwards into resource extraction and production and forwards from a trading base into financial services, real-estate development, and retailing. In this it frequently happened that a privileged relationship to state power also played a key role. The two businessmen who were closest to Suharto in Indonesia, for example, both fed the Suharto family financial interests but also fed off their connections to that state apparatus to become immensely rich. By 1997 one of them, the Salim Group, was 'reportedly the world's largest Chinese-owned conglomerate, with $20 billion in assets and some five hundred companies'. Starting with a relatively small investment company, Carlos Slim gained control over the newly privatized telecommunications system in Mexico and quickly parlayed that into a huge conglomerate empire that controls not only a huge slice of the Mexican economy but has sprawling interests in US retailing (Circuit City and Barnes and Noble) as well as throughout Latin America.[30] In the US, the Walton family has become immensely rich as Wal-Mart has surged into a dominant position in US retailing but with integration into Chinese production lines as well as retail stores worldwide. While there are obvious links between these sorts of activities and the world of finance, the incredible ability not only to amass large personal fortunes but to exercise a controlling power over large segments of the economy confers on these few individuals immense economic power to influence political processes. Small wonder that the net worth of the 358 richest people in 1996 was 'equal to the combined income of the poorest 45 per cent of the world's population—2.3 billion people'. Worse still, 'the world's 200 richest people more than doubled their net worth in the four years to 1998, to more than $1 trillion. The assets of the top three billionaires [were by then] more than the combined GNP of all least developed countries and their 600 million people.'[31]

There is, however, one further conundrum to be considered in this process of radical reconfiguration of class relations. The question arises, and has been much debated, as to whether this new class configuration should be considered as transnational or whether it can be still understood as something based exclusively within the parameters of the nation-state.[32] My own position is this. The case that the ruling class anywhere has ever confined its operations and defined its loyalties to any one nation-state has historically been much overstated. It never did make much sense to speak of a distinctively US versus British or French or German or Korean capitalist class. The international links were always important, particularly through colonial and neocolonial activities, but also through transnational connections that go back to the nineteenth century if not before. But there has undoubtedly been a deepening as well as a widening of these transnational connections during the phase of neoliberal globalization, and it is vital that these connectivities be acknowledged. This does not mean, however, that the leading individuals within this class do not attach themselves to specific state apparatuses for both the advantages and the protections that this affords them. *Where* they specifically attach themselves is important, but is no more stable than the capitalist activity they pursue. Rupert Murdoch may begin in Australia then concentrate on Britain before finally taking up citizenship (doubtless on an accelerated schedule) in the US. He is not above or outside particular state powers, but by the same token he wields considerable influence via his media interests in politics in Britain, the US, and Australia. All 247 of the supposedly independent editors of his newspapers worldwide supported the US invasion of Iraq. As a form of shorthand, however, it still makes sense to speak about US or British or Korean capitalist class interests because corporate interests like Murdoch's or those of Carlos Slim or the Salim group both feed off and nurture specific state apparatuses. Each can and typically does, however, exert class power in more than one state simultaneously.

While this disparate group of individuals embedded in the corporate, financial, trading, and developer worlds do not necessarily conspire as a class, and while there may be frequent tensions between them, they nevertheless possess a certain accordance of interests that generally recognizes the advantages (and now some of the dangers) to be derived from neoliberalization. They also possess, through organizations like the World Economic Forum at Davos, means of exchanging ideas and of consorting and consulting with political leaders. They exercise immense influence over global affairs and possess a freedom of action that no ordinary citizen possesses.

Freedom's Prospect

This history of neoliberalization and class formation, and the proliferating acceptance of the ideas of the Mont Pelerin Society as the ruling ideas of the time, makes for interesting reading when placed against the background of counter-arguments laid out by Karl Polanyi in 1944 (shortly before the Mont Pelerin Society was established). In a complex society, he pointed out, the meaning of freedom becomes as contradictory and as fraught as its incitements to action are compelling. There are, he noted, two kinds of freedom, one good and the other bad. Among the latter he listed 'the freedom to exploit one's fellows, or the freedom to make inordinate gains without commensurable service to the community, the freedom to keep technological inventions from being used for public benefit, or the freedom to profit from public calamities secretly engineered for private advantage'. But, Polanyi continued, 'the market economy under which these freedoms throve also produced freedoms we prize highly. Freedom of conscience, freedom of speech, freedom of meeting, freedom of association, freedom to choose one's own job'. While we may 'cherish these freedoms for their own sake',—and, surely, many of us still do—they were to a large extent 'by-products of the same economy that was also responsible for the evil freedoms'.[33] Polanyi's answer to this duality makes strange reading given the current hegemony of neoliberal thinking:

> The passing of [the] market economy can become the beginning of an era of unprecedented freedom. Juridical and actual freedom can be made wider and more general than ever before; regulation and control can achieve freedom not only for the few, but for all. Freedom not as an appurtenance of privilege, tainted at the source, but as a prescriptive right extending far beyond the narrow confines of the political sphere into the intimate organization of society itself. Thus will old freedoms and civic rights be added to the fund of new freedoms generated by the leisure and security that industrial society offers to all. Such a society can afford to be both just and free.[34]

Unfortunately, Polanyi noted, the passage to such a future is blocked by the 'moral obstacle' of liberal utopianism (and more than once he cites Hayek as an exemplar of that tradition):

> Planning and control are being attacked as a denial of freedom. Free enterprise and private ownership are declared to be essentials of freedom. No society built on other foundations is said to deserve to be called free. The freedom that regulation creates is denounced as unfreedom; the justice, liberty and welfare it offers are decried as a camouflage of slavery.[35]

The idea of freedom 'thus degenerates into a mere advocacy of free enterprise', which means 'the fullness of freedom for those whose income, leisure and security need no enhancing, and a mere pittance of liberty for the people, who may in vain attempt to make use of their democratic rights to gain shelter from the power of the owners of property'. But if, as is always the case, 'no society is possible in which power and compulsion are absent, nor a world in which force has no function', then the only way this liberal utopian vision could be sustained is by force, violence, and authoritarianism. Liberal or neoliberal utopianism is doomed, in Polanyi's view, to be frustrated by authoritarianism, or even outright fascism.[36] The good freedoms are lost, the bad ones take over.

Polanyi's diagnosis appears peculiarly appropriate to our contemporary condition. It provides a powerful vantage point from which to understand what President Bush intends when he asserts that 'as the greatest power on earth we [the US] have an obligation to help the spread of freedom'. It helps explain why neoliberalism has turned so authoritarian, forceful, and anti-democratic at the very moment when 'humanity holds in its hands the opportunity to offer freedom's triumph over all its age-old foes'.[37] It makes us focus on how so many corporations have profiteered from withholding the benefits of their technologies (such as AIDS drugs) from the public sphere, as well as from the calamities of war (as in the case of Halliburton), famine, and environmental disaster. It raises the worry as to whether or not many of these calamities or near calamities (arms races and the need to confront both real and imagined enemies) have been secretly engineered for corporate advantage. And it makes it all too clear why those of wealth and power so avidly support certain conceptions of rights and freedoms while seeking to persuade us of their universality and goodness. Thirty years of neoliberal freedoms have, after all, not only restored power to a narrowly defined capitalist class. They have also produced immense concentrations of corporate power in energy, the media, pharmaceuticals, transportation, and even retailing (for example Wal-Mart). The freedom of the market that Bush proclaims as the high point of human aspiration turns out to be nothing more than the convenient means to spread corporate monopoly power and Coca Cola everywhere without constraint. With disproportionate influence over the media and the political process this class (with Rupert Murdoch and Fox News in the lead) has both the incentive and the power to persuade us that we are all better off under a neoliberal regime of freedoms. For the elite, living comfortably in their gilded ghettos, the world must indeed seem a better place. As Polanyi might have put it, neoliberalism confers rights and freedoms on those 'whose income, leisure and security need no enhancing', leaving a pittance for the rest of us. How is it, then, that 'the rest of us' have so easily acquiesced in this state of affairs?

3

The Neoliberal State

The role of the state in neoliberal theory is reasonably easy to define. The practice of neoliberalization has, however, evolved in such a way as to depart significantly from the template that theory provides. The somewhat chaotic evolution and uneven geographical development of state institutions, powers, and functions over the last thirty years suggests, furthermore, that the neoliberal state may be an unstable and contradictory political form.

The Neoliberal State in Theory

According to theory, the neoliberal state should favour strong individual private property rights, the rule of law, and the institutions of freely functioning markets and free trade.[1] These are the institutional arrangements considered essential to guarantee individual freedoms. The legal framework is that of freely negotiated contractual obligations between juridical individuals in the marketplace. The sanctity of contracts and the individual right to freedom of action, expression, and choice must be protected. The state must therefore use its monopoly of the means of violence to preserve these freedoms at all costs. By extension, the freedom of businesses and corporations (legally regarded as individuals) to operate within this institutional framework of free markets and free trade is regarded as a fundamental good. Private enterprise and entrepreneurial initiative are seen as the keys to innovation and wealth creation. Intellectual property rights are protected (for example through patents) so as to encourage technological changes. Continuous increases in productivity should then deliver higher living standards to everyone. Under the assumption that 'a rising tide lifts all boats', or of 'trickle down', neoliberal theory holds that the elimination of poverty (both domestically and worldwide) can best be secured through free markets and free trade.

Neoliberals are particularly assiduous in seeking the privatization of assets. The absence of clear private property rights—as in many developing countries—is seen as one of the greatest of all institutional barriers to economic development and the improvement of human welfare. Enclosure and the assignment of private property rights is considered the best way to protect against the so-called 'tragedy of the commons' (the tendency for individuals to irresponsibly super-exploit common property resources such as land and water). Sectors formerly run or regulated by the state must be turned over to the private sphere and be deregulated (freed from any state interference). Competition—between individuals, between firms, between territorial entities (cities, regions, nations, regional groupings)—is held to be a primary virtue. The ground-rules for market competition must be properly observed, of course. In situations where such rules are not clearly laid out or where property rights are hard to define, the state must use its power to impose or invent market systems (such as trading in pollution rights). Privatization and deregulation combined with competition, it is claimed, eliminate bureaucratic red tape, increase efficiency and productivity, improve quality, and reduce costs, both directly to the consumer through cheaper commodities and services and indirectly through reduction of the tax burden. The neoliberal state should persistently seek out internal reorganizations and new institutional arrangements that improve its competitive position as an entity vis-à-vis other states in the global market.

While personal and individual freedom in the marketplace is guaranteed, each individual is held responsible and accountable for his or her own actions and well-being. This principle extends into the realms of welfare, education, health care, and even pensions (social security has been privatized in Chile and Slovakia, and proposals exist to do the same in the US). Individual success or failure are interpreted in terms of entrepreneurial virtues or personal failings (such as not investing significantly enough in one's own human capital through education) rather than being attributed to any systemic property (such as the class exclusions usually attributed to capitalism).

The free mobility of capital between sectors, regions, and countries is regarded as crucial. All barriers to that free movement (such as tariffs, punitive taxation arrangements, planning and environmental controls, or other locational impediments) have to be removed, except in those areas crucial to 'the national interest', however that is defined. State sovereignty over commodity and capital movements is willingly surrendered to the global market. International competition is seen as healthy since it improves efficiency and productivity, lowers prices, and thereby controls inflationary tendencies. States should therefore collectively seek and negotiate the reduction of barriers to movement of capital across borders and the opening of markets (for both commodities and capital) to global exchange. Whether or not this applies to labour as a commodity is, however, controversial. To the degree that all states must collaborate to reduce barriers to exchange, so co-ordinating structures such as the group of advanced capitalist nations (the US, Britain, France, Germany, Italy, Canada, and Japan) known as the G7 (now the G8 with the addition of Russia) must arise. International agreements between states guaranteeing the rule of law and freedoms of trade, such as those now incorporated in the World Trade Organization agreements, are critical to the advancement of the neoliberal project on the global stage.

Neoliberal theorists are, however, profoundly suspicious of democracy. Governance by majority rule is seen as a potential threat to individual rights and constitutional liberties. Democracy is viewed as a luxury, only possible under conditions of relative affluence coupled with a strong middle-class presence to guarantee political stability. Neoliberals therefore tend to favour governance by experts and elites. A strong preference exists for government by executive order and by judicial decision rather than democratic and parliamentary decision-making. Neoliberals prefer to insulate key institutions, such as the central bank, from democratic pressures. Given that neoliberal theory centres on the rule of law and a strict interpretation of constitutionality, it follows that conflict and opposition must be mediated through the courts. Solutions and remedies to any problems have to be sought by individuals through the legal system.

Tensions and Contradictions

There are some shadowy areas as well as points of conflict within the general theory of the neoliberal state. First, there is the problem of how to interpret monopoly power. Competition often results in monopoly or oligopoly, as stronger firms drive out weaker. Most neoliberal theorists consider this unproblematic (it should, they say, maximize efficiency) provided there are no substantial barriers to the entry of competitors (a condition often hard to realize and which the state may therefore have to nurture). The case of so-called 'natural monopolies' is more difficult. It makes no sense to have multiple competing electrical power grids, gas pipelines, water and sewage systems, or rail links between Washington and Boston. State regulation of provision, access, and pricing seems unavoidable in such domains. While partial deregulation may be possible (permitting competing producers to feed electricity into the same grid or run trains on the same tracks, for example) the possibilities for profiteering and abuse, as the California power crisis of 2002 abundantly showed, or for deadly muddle and confusion, as the British rail situation has proven, are very real.

The second major arena of controversy concerns market failure. This arises when individuals and firms avoid paying the full costs attributable to them by shedding their liabilities outside the market (the liabilities are, in technical parlance, 'externalized'). The classic case is that of pollution, where individuals and firms avoid costs by dumping noxious wastes free of charge in the environment. Productive ecosystems may be degraded or destroyed as a result. Exposure to dangerous substances or physical dangers in the workplace may affect human health and even deplete the pool of healthy labourers in the workforce. While neoliberals admit the problem and some concede the case for limited state intervention, others argue for inaction because the cure will almost certainly be worse than the disease. Most would agree, however, that if there are to be interventions these should work through market mechanisms (via tax impositions or incentives, trading rights of pollutants, and the like). Competitive failures are approached in a similar fashion. Rising transaction costs can be incurred as contractual and subcontractual relations proliferate. The vast apparatus of currency speculation, to take just one example, appears more and more costly at the same time as it becomes more and more fundamental to capturing speculative profits. Other problems arise when, say, all competing hospitals in a region buy the same sophisticated equipment that remains underutilized, thus driving up aggregate costs. The case here for cost containment through state planning, regulation, and forced co-ordination is strong, but again neoliberals are deeply suspicious of such interventions.

All agents acting in the market are generally presumed to have access to the same information. There are presumed to be no asymmetries of power or of information that interfere with the capacity of individuals to make rational economic decisions in their own interests. This condition is rarely, if ever, approximated in practice, and there are significant consequences.[2] Better informed and more powerful players have an advantage that can all too easily be parlayed into procuring even better information and greater relative power. The establishment of intellectual property rights (patents), furthermore, encourages 'rent seeking'. Those who hold the patent rights use their monopoly power to set monopoly prices and to prevent technology transfers except at a very high cost. Asymmetric power relations tend, therefore, to increase rather than diminish over time unless the state steps in to counteract them. The neoliberal presumption of perfect information and a level playing field for competition appears as either innocently utopian or a deliberate obfuscation of processes that will lead to the concentration of wealth and, therefore, the restoration of class power.

The neoliberal theory of technological change relies upon the coercive powers of competition to drive the search for new products, new production methods, and new organizational forms. This drive becomes so deeply embedded in entrepreneurial common sense, however, that it becomes a fetish belief: that there is a technological fix for each and every problem. To the degree that this takes hold not only within corporations but also within the state apparatus (in the military in particular), it produces powerful independent trends of technological change that can become destabilizing, if not counterproductive. Technological developments can run amok as sectors dedicated solely to technological innovation create new products and new ways of doing things that as yet have no market (new pharmaceutical products are produced, for which new illnesses are then invented). Talented interlopers can, furthermore, mobilize technological innovations to undermine dominant social relations and institutions; they can, through their activities, even reshape common sense to their own pecuniary advantage. There is an inner connection, therefore, between technological dynamism, instability, dissolution of social solidarities, environmental degradation, deindustrialization, rapid shifts in time–space relations, speculative bubbles, and the general tendency towards crisis formation within capitalism.[3]

There are, finally, some fundamental political problems within neoliberalism that need to be addressed. A contradiction arises between a seductive but alienating possessive individualism on the one hand and the desire for a meaningful collective life on the other. While individuals are supposedly free to choose, they are not supposed to choose to construct strong collective institutions (such as trade unions) as opposed to weak voluntary associations (like charitable organizations). They most certainly should not choose to associate to create political parties with the aim of forcing the state to intervene in or eliminate the market. To guard against their greatest fears—fascism, communism, socialism, authoritarian populism, and even majority rule—the neoliberals have to put strong limits on democratic governance, relying instead upon undemocratic and unaccountable institutions (such as the Federal Reserve or the IMF) to make key decisions. This creates the paradox of intense state interventions and government by elites and 'experts' in a world where the state is supposed not to be interventionist. One is reminded of Francis Bacon's utopian tale *New Atlantis* (first published in 1626) where a Council of Wise Elders mandates all key decisions. Faced with social movements that seek collective interventions, therefore, the neoliberal state is itself forced to intervene, sometimes repressively, thus denying the very freedoms it is supposed to uphold. In this situation, however, it can marshal one secret weapon: international competition and globalization can be used to discipline movements opposed to the neoliberal agenda within individual states. If that fails, then the state must resort to persuasion, propaganda or, when necessary, raw force and police power to suppress opposition to neoliberalism. This was precisely Polanyi's fear: that the liberal (and by extension the neoliberal) utopian project could only ultimately be sustained by resort to authoritarianism. The freedom of the masses would be restricted in favour of the freedoms of the few.

The Neoliberal State in Practice

The general character of the state in the era of neoliberalization is hard to describe for two particular reasons. First, systematic divergences from the template of neoliberal theory quickly become apparent, not all of which can be attributed to the internal contradictions already outlined. Secondly, the evolutionary dynamic of neoliberalization has been such as to force adaptations that have varied greatly from place to place as well as over time. Any attempt to extract some composite picture of a typical neoliberal state from this unstable and volatile historical geography would seem to be a fool's errand. Nevertheless, I think it useful to sketch in some general threads of argument that keep the concept of a distinctively neoliberal state in play.

There are two arenas in particular where the drive to restore class power twists and in some respects even reverses neoliberal theory in its practice. The first of these arises out of the need to create a 'good business or investment climate' for capitalistic endeavours. While there are some conditions, such as political stability or full respect for the law and even-handedness in its application, that might plausibly be considered 'class neutral', there are others that are manifestly biased. The biases arise in particular out of the treatment of labour and the environment as mere commodities. In the event of a conflict, the typical neoliberal state will tend to side with a good business climate as opposed to either the collective rights (and quality of life) of labour or the capacity of the environment to regenerate itself. The second arena of bias arises because, in the event of a conflict, neoliberal states typically favour the integrity of the financial system and the solvency of financial institutions over the well-being of the population or environmental quality.

These systematic biases are not always easy to discern within the welter of divergent and often wildly disparate state practices. Pragmatic and opportunistic considerations play an important part. President Bush advocates free markets and free trade but imposed steel tariffs in order to bolster his electoral chances (successfully, it turned out) in Ohio. Quotas are arbitrarily placed on foreign imports to assuage domestic discontents. Europeans protect agriculture while insisting upon free trade in everything else for social, political, and even aesthetic reasons. Special interventions of the state favour particular business interests (for example armaments deals), and credits are arbitrarily extended from one state to another in order to gain political access and influence in geopolitically sensitive regions (such as the Middle East). For all these sorts of reasons it would be surprising indeed to find even the most fundamentalist of neoliberal states cleaving to neoliberal orthodoxy all of the time.

In other instances we may reasonably attribute divergences between theory and practice to frictional problems of transition reflecting the different state forms that existed prior to the neoliberal turn. The conditions that prevailed in central and eastern Europe after the collapse of communism were very special, for example. The speed with which privatization occurred under the 'shock therapy' that was visited upon those countries in the 1990s created enormous stresses that reverberate to this day. Social democratic states (such as those in Scandinavia or Britain in the immediate post-war period) had long taken key sectors of the economy such as health care, education, and even housing out of the market on the grounds that access to basic human needs should not be mediated through market forces and access limited by ability to pay. While Margaret Thatcher managed to change all that, the Swedes resisted far longer even in the face of strong attempts by capitalist class interests to take the neoliberal road. Developmental states (such as Singapore and several other Asian countries), for quite different reasons, rely on the public sector and state planning in tight association with domestic and corporate (often foreign and multinational) capital to promote capital accumulation and economic growth.[4] Developmental states typically pay considerable attention to social as well as physical infrastructures. This means far more egalitarian policies with respect to, for example, access to educational opportunities and health care. State investment in education is viewed, for example, as a crucial prerequisite to gaining competitive advantage in world trade. Developmental states become consistent with neoliberalization to the degree that they facilitate competition between firms, corporations, and territorial entities and accept the rules of free trade and rely on open export markets. But they are actively interventionist in creating the infrastructures for a good business climate. Neoliberalization therefore opens up possibilities for developmental states to enhance their position in international competition by developing new structures of state intervention (such as support for research and development). But, by the same token, neoliberalization creates conditions for class formation, and as that class power strengthens so the tendency arises (for example in contemporary Korea) for that class to seek to liberate itself from reliance upon state power and to reorient state power along neoliberal lines.

As new institutional arrangements come to define the rules of world trade—for example, the opening of capital markets is now a condition of membership of the IMF and the WTO—developmental states find themselves increasingly drawn into the neoliberal fold. One of the main effects of the Asian crisis of 1997–8, for example, was to bring developmental states more in line with standard neoliberal practices. And as we saw in the British case, it is hard to maintain a neoliberal posture externally (for example to facilitate the operations of finance capital) without accepting a modicum of neoliberalization on the inside (South Korea has struggled with exactly this sort of stress in recent times). But developmental states are by no means convinced that the neoliberal path is the right one, particularly since those states (like Taiwan and China) that had not freed up their capital markets suffered far less in the financial crisis of 1997–8 than those that had.[5]

Contemporary practices with respect to finance capital and financial institutions are perhaps the most difficult of all to reconcile with neoliberal orthodoxy. Neoliberal states typically facilitate the diffusion of influence of financial institutions through deregulation, but then they also all too often guarantee the integrity and solvency of financial institutions at no matter what cost. This commitment in part derives (legitimately in some versions of neoliberal theory) from reliance upon monetarism as the basis of state policy—the integrity and soundness of money is a central pinion of that policy. But this paradoxically means that the neoliberal state cannot tolerate any massive financial defaults even when it is the financial institutions that have made the bad decisions. The state has to step in and replace 'bad' money with its own supposedly 'good' money—which explains the pressure on central bankers to maintain confidence in the soundness of state money. State power has often been used to bail out companies or avert financial failures, such as the US savings and loans crisis of 1987–8, which cost US taxpayers an estimated $150 billion, or the collapse of the hedge fund Long Term Capital Management in 1997–8, which cost $3.5 billion.

Internationally, the core neoliberal states gave the IMF and the World Bank full authority in 1982 to negotiate debt relief, which meant in effect to protect the world's main financial institutions from the threat of default. The IMF in effect covers, to the best of its ability, exposures to risk and uncertainty in international financial markets. This practice is hard to justify according to neoliberal theory, since investors should in principle be responsible for their own mistakes. More fundamentalist-minded neoliberals therefore believe that the IMF should be abolished. This option was seriously considered during the early years of the Reagan administration, and Congressional Republicans raised it again in 1998. James Baker, Reagan's Secretary of the Treasury, breathed new life into the institution when he found himself faced with the potential bankruptcy of Mexico and serious losses for the main New York City investment banks that held Mexican debt in 1982. He used the IMF to impose structural adjustment on Mexico and protect the New York bankers from default. This practice of prioritizing the needs of the banks and financial institutions while diminishing the standard of living of the debtor country had already been pioneered during the New York City debt crisis. In the international context this meant extracting surpluses from impoverished Third World populations in order to pay off the international bankers. 'What a peculiar world', Stiglitz quizzically remarks, 'in which the poor countries are in effect subsidizing the richest.' Even Chile—the exemplar of 'pure' neoliberal practices after 1975—got hit in this way in 1982–3, with the result that gross domestic product fell by nearly 14 per cent and unemployment shot up to 20 per cent in one year. The inference that 'pure' neoliberalization does not work failed to be registered theoretically, although the pragmatic adaptations that followed in Chile (as well as in Britain after 1983) opened up a field of compromises that widened the gap even further between theory and practice.[6]

The extraction of tribute via financial mechanisms is an old imperial practice. It has proven very helpful to the restoration of class power, particularly in the world's main financial centres, and it does not always need a structural adjustment crisis to work. When entrepreneurs in developing countries borrow money from abroad, for example, the requirement that their own state should have sufficient foreign exchange reserves to cover their borrowings translates into the state having to invest in, say, US Treasury bonds. The difference between the interest rate on the money borrowed (for example 12 per cent) and the money deposited as collateral in US Treasuries in Washington (for example 4 per cent) yields a strong net financial flow to the imperial centre at the expense of the developing country.

This tendency on the part of the core states like the US to protect financial interests and to stand by as they suck in surpluses from elsewhere both promotes and reflects the consolidation of upper-class power within those states around processes of financialization. But the habit of intervening in the marketplace and bailing out financial institutions when they get into trouble cannot be reconciled with neoliberal theory. Reckless investments should be punished by losses to the lender, but the state makes lenders largely immune to losses. Borrowers have to pay up instead, no matter what the social cost. Neoliberal theory should warn 'Lender, beware', but the practice is 'Borrower, beware'.

There are limits to the capacity to squeeze out surpluses from developing countries' economies. Strapped by austerity measures that lock them into chronic economic stagnation, the prospect of their repaying debts has frequently receded into some distant future. Under these conditions, some measured losses may appear an attractive option. This happened under the Brady Plan of 1989.[7] Financial institutions agreed to write down 35 per cent of their outstanding debt as a loss in exchange for discounted bonds (backed by the IMF and the US Treasury), guaranteeing repayment of the rest (in other words creditors were guaranteed repayment of debts at the rate of 65 cents on the dollar). By 1994 some eighteen countries (including Mexico, Brazil, Argentina, Venezuela, and Uruguay) had agreed to deals that forgave them some $60 billion in debt. The hope, of course, was that this debt relief would spark an economic recovery that would permit the rest of the debt to be paid off in a timely way. The trouble was that the IMF also saw to it that all the countries that took advantage of this modicum of debt forgiveness (which many regarded as minimal in relation to what the banks could afford) were also required to swallow the poison pill of neoliberal institutional reforms. The peso crisis in Mexico in 1995, the Brazilian crisis of 1998, and the total collapse of the Argentine economy in 2001 were predictable results.

This brings us, finally, to the problematic issue of the neoliberal state's approach to labour markets. Internally, the neoliberal state is necessarily hostile to all forms of social solidarity that put restraints on capital accumulation. Independent trade unions or other social movements (such as the municipal socialism of the Greater London Council type), which acquired considerable power under embedded liberalism, have therefore to be disciplined, if not destroyed, and this in the name of the supposedly sacrosanct individual liberty of the isolated labourer. 'Flexibility' becomes the watchword with respect to labour markets. It is hard to argue that increased flexibility is all bad, particularly in the face of highly restrictive and sclerotic union practices. There are, therefore, reformists of a left persuasion who argue strongly for 'flexible specialization' as a way forward.[8] While some individual labourers may undoubtedly benefit from this, the asymmetries of information and of power that arise, coupled with the lack of easy and free mobility of labour (particularly across state borders), put labour at a disadvantage. Flexible specialization can be seized on by capital as a handy way to procure more flexible means of accumulation. The two terms—flexible specialization and flexible accumulation—have quite different connotations.[9] The general outcome is lower wages, increasing job insecurity, and in many instances loss of benefits and of job protections. Such trends are readily discernible in all states that have taken the neoliberal road. Given the violent assault on all forms of labour organization and labour rights and heavy reliance upon massive but largely disorganized labour reserves in countries such as China, Indonesia, India, Mexico, and Bangladesh, it would seem that labour control and maintenance of a high rate of labour exploitation have been central to neoliberalization all along. The restoration or formation of class power occurs, as always, at the expense of labour.

It is precisely in such a context of diminished personal resources derived from the job market that the neoliberal determination to transfer all responsibility for well-being back to the individual has doubly deleterious effects. As the state withdraws from welfare provision and diminishes its role in arenas such as health care, public education, and social services, which were once so fundamental to embedded liberalism, it leaves larger and larger segments of the population exposed to impoverishment.[10] The social safety net is reduced to a bare minimum in favour of a system that emphasizes personal responsibility. Personal failure is generally attributed to personal failings, and the victim is all too often blamed.

Behind these major shifts in social policy lie important structural changes in the nature of governance. Given the neoliberal suspicion of democracy, a way has to be found to integrate state decision-making into the dynamics of capital accumulation and the networks of class power that are in the process of restoration, or, as in China and Russia, in formation. Neoliberalization has entailed, for example, increasing reliance on public–private partnerships (this was one of the strong ideas pushed by Margaret Thatcher as she set up 'quasi-governmental institutions' such as urban development corporations to pursue economic development). Businesses and corporations not only collaborate intimately with state actors but even acquire a strong role in writing legislation, determining public policies, and setting regulatory frameworks (which are mainly advantageous to themselves). Patterns of negotiation arise that incorporate business and sometimes professional interests into governance through close and sometimes secretive consultation. The most blatant example of this was the persistent refusal of Vice-President Cheney to release the names of the consultative group that formulated the Bush administration's energy policy document of 2002; it almost certainly included Kenneth Lay, the head of Enron—a company accused of profiteering by deliberately fostering an energy crisis in California and which then collapsed in the midst of a huge accounting scandal. The shift from government (state power on its own) to governance (a broader configuration of state and key elements in civil society) has therefore been marked under neoliberalism.[11] In this respect the practices of the neoliberal and developmental state broadly converge.

The state typically produces legislation and regulatory frameworks that advantage corporations, and in some instances specific interests such as energy, pharmaceuticals, agribusiness, etc. In many of the instances of public–private partnerships, particularly at the municipal level, the state assumes much of the risk while the private sector takes most of the profits. If necessary, furthermore, the neoliberal state will resort to coercive legislation and policing tactics (anti-picketing rules, for example) to disperse or repress collective forms of opposition to corporate power. Forms of surveillance and policing multiply: in the US, incarceration became a key state strategy to deal with problems arising among discarded workers and marginalized populations. The coercive arm of the state is augmented to protect corporate interests and, if necessary, to repress dissent. None of this seems consistent with neoliberal theory. The neoliberal fear that special-interest groups would pervert and subvert the state is nowhere better realized than in Washington, where armies of corporate lobbyists (many of whom have taken advantage of the 'revolving door' between state employment and far more lucrative employment by the corporations) effectively dictate legislation to match their special interests. While some states continue to respect the traditional independence of the Civil Service, this condition has everywhere been under threat in the course of neoliberalization. The boundary between the state and corporate power has become more and more porous. What remains of representative democracy is overwhelmed, if not totally though legally corrupted by money power.

Since access to the judiciary is nominally egalitarian but in practice extremely expensive (be it an individual suing over negligent practices or a country suing the US for violation of WTO rules—a procedure that can cost up to a million dollars, a sum equivalent to the annual budget of some small, impoverished countries), the outcomes are often strongly biased towards those with money power. Class bias in decision-making within the judiciary is, in any case, pervasive if not assured.[12] It should not be surprising that the primary collective means of action under neoliberalism are then defined and articulated through non-elected (and in many instances elite-led) advocacy groups for various kinds of rights. In some instances, such as consumer protections, civil rights, or the rights of handicapped persons, substantive gains have been achieved by such means. Non-governmental and grassroots organizations (NGOs and GROs) have also grown and proliferated remarkably under neoliberalism, giving rise to the belief that opposition mobilized outside the state apparatus and within some separate entity called 'civil society' is the powerhouse of oppositional politics and social transformation.[13] The period in which the neoliberal state has become hegemonic has also been the period in which the concept of civil society—often cast as an entity in opposition to state power—has become central to the formulation of oppositional politics. The Gramscian idea of the state as a unity of political and civil society gives way to the idea of civil society as a centre of opposition, if not an alternative, to the state.

From this account we can clearly see that neoliberalism does not make the state or particular institutions of the state (such as the courts and police functions) irrelevant, as some commentators on both the right and the left have argued.[14] There has, however, been a radical reconfiguration of state institutions and practices (particularly with respect to the balance between coercion and consent, between the powers of capital and of popular movements, and between executive and judicial power, on the one hand, and powers of representative democracy on the other).

But all is not well with the neoliberal state, and it is for this reason that it appears to be either a transitional or an unstable political form. At the heart of the problem lies a burgeoning disparity between the declared public aims of neoliberalism—the well-being of all—and its actual consequences—the restoration of class power. But beyond this there lies a whole series of more specific contradictions that need to be highlighted.

1. On the one hand the neoliberal state is expected to take a back seat and simply set the stage for market functions, but on the other it is supposed to be activist in creating a good business climate and to behave as a competitive entity in global politics. In its latter role it has to work as a collective corporation, and this poses the problem of how to ensure citizen loyalty. Nationalism is an obvious answer, but this is profoundly antagonistic to the neoliberal agenda. This was Margaret Thatcher's dilemma, for it was only through playing the nationalism card in the Falklands/Malvinas war and, even more significantly, in the campaign against economic integration with Europe, that she could win re-election and promote further neoliberal reforms internally. Again and again, be it within the European Union, in Mercosur (where Brazilian and Argentine nationalisms inhibit integration), in NAFTA, or in ASEAN, the nationalism required for the state to function effectively as a corporate and competitive entity in the world market gets in the way of market freedoms more generally.
2. Authoritarianism in market enforcement sits uneasily with ideals of individual freedoms. The more neoliberalism veers towards the former, the harder it becomes to maintain its legitimacy with respect to the latter and the more it has to reveal its anti-democratic colours. This contradiction is paralleled by a growing lack of symmetry in the power relation between corporations and individuals such as you and me. If 'corporate power steals your personal freedom' then the promise of neoliberalism comes to nothing.[15] This applies to individuals in the workplace as well as in the living space. It is one thing to maintain, for example, that my health-care status is my personal choice and responsibility, but quite another when the only way I can satisfy my needs in the market is through paying exorbitant

premiums to inefficient, gargantuan, highly bureaucratized but also highly profitable insurance companies. When these companies even have the power to define new categories of illness to match new drugs coming on the market then something is clearly wrong.[16] Under such circumstances, maintaining legitimacy and consent, as we saw in Chapter 2, becomes an even more difficult balancing act that can easily topple over when things start to go wrong.

3. While it may be crucial to preserve the integrity of the financial system, the irresponsible and self-aggrandizing individualism of operators within it produces speculative volatility, financial scandals, and chronic instability. The Wall Street and accounting scandals of recent years have undermined confidence and posed regulatory authorities with serious problems of how and when to intervene, internationally as well as nationally. International free trade requires some global rules of the game, and that calls forth the need for some kind of global governance (for example by the WTO). Deregulation of the financial system facilitates behaviours that call for re-regulation if crisis is to be avoided.[17]
4. While the virtues of competition are placed up front, the reality is the increasing consolidation of oligopolistic, monopoly, and transnational power within a few centralized multinational corporations: the world of soft-drinks competition is reduced to Coca Cola versus Pepsi, the energy industry is reduced to five huge transnational corporations, and a few media magnates control most of the flow of news, much of which then becomes pure propaganda.
5. At the popular level, the drive towards market freedoms and the commodification of everything can all too easily run amok and produce social incoherence. The destruction of forms of social solidarity and even, as Thatcher suggested, of the very idea of society itself, leaves a gaping hole in the social order. It then becomes peculiarly difficult to combat anomie and control the resultant anti-social behaviours such as criminality, pornography, or the virtual enslavement of others. The reduction of 'freedom' to 'freedom of enterprise' unleashes all those 'negative freedoms' that Polanyi saw as inextricably tied in with the

positive freedoms. The inevitable response is to reconstruct social solidarities, albeit along different lines—hence the revival of interest in religion and morality, in new forms of associationism (around questions of rights and citizenship, for example) and even the revival of older political forms (fascism, nationalism, localism, and the like). Neoliberalism in its pure form has always threatened to conjure up its own nemesis in varieties of authoritarian populism and nationalism. As Schwab and Smadja, organizers of the once purely celebratory neoliberal annual jamboree at Davos, warned as early as 1996:

> Economic globalization has entered a new phase. A mounting backlash against its effects, especially in the industrial democracies, is threatening a disruptive impact on economic activity and social stability in many countries. The mood in these democracies is one of helplessness and anxiety, which helps explain the rise of a new brand of populist politicians. This can easily turn into revolt.[18]

The Neoconservative Answer

If the neoliberal state is inherently unstable, then what might replace it? In the US there are signs of a distinctively neoconservative answer to this question. Reflecting on the recent history of China, Wang also suggests that, theoretically,

> such discursive narratives as 'neo-Authoritarianism', 'neoconservatism', 'classical liberalism', market extremism, national modernization . . . all had close relationships of one sort or another with the constitution of neoliberalism. The successive displacement of these terms for one another (or even the contradictions among them) demonstrate the shifts in the structure of power in both contemporary China and the contemporary world at large.[19]

Whether or not this portends a more general reconfiguration of governance structures worldwide remains to be seen. It is, however, interesting to note how neoliberalization in authoritarian states such as China and Singapore seems to be converging with the increasing authoritarianism evident in neoliberal states such as the US and Britain. Consider, then, how the neoconservative answer to the inherent instability of the neoliberal state has evolved in the US.

Like the neoliberals that preceded them, the 'neocons' had long been nurturing their particular views on the social order, in universities (Leo Strauss at the University of Chicago being particularly influential) and well-funded think-tanks, and through influential publications (such as *Commentary*).[20] US neoconservatives favour corporate power, private enterprise, and the restoration of class power. Neoconservatism is therefore entirely consistent with the neoliberal agenda of elite governance, mistrust of democracy, and the maintenance of market freedoms. But it veers away from the principles of pure neoliberalism and has reshaped neoliberal practices in two fundamental respects: first, in its concern for order as an answer to the chaos of individual interests, and second, in its concern for an overweening morality as the necessary social glue to keep the body politic secure in the face of external and internal dangers.

In its concern for order, neoconservatism appears as a mere stripping away of the veil of authoritarianism in which neoliberalism sought to envelop itself. But it also proposes distinctive answers to one of the central contradictions of neoliberalism. If 'there is no such thing as society but only individuals' as Thatcher initially put it, then the chaos of individual interests can easily end up prevailing over order. The anarchy of the market, of competition, and of unbridled individualism (individual hopes, desires, anxieties, and fears; choices of lifestyle and of sexual habits and orientation; modes of self-expression and behaviours towards others) generates a situation that becomes increasingly ungovernable. It may even lead to a breakdown of all bonds of solidarity and a condition verging on social anarchy and nihilism.

In the face of this, some degree of coercion appears necessary to restore order. The neoconservatives therefore emphasize militarization as an antidote to the chaos of individual interests. For this reason, they are far more likely to highlight threats, real or imagined, both at home and abroad, to the integrity and stability of the nation. In the US this entails triggering what Hofstadter refers to as 'the paranoid style of American politics' in which the nation is depicted as besieged and threatened by enemies from within and without.[21] This style of politics has had a long history in the US. Neoconservatism is not new, and since the Second World War it has found a particular home in a powerful military-industrial complex that has a vested interest in permanent militarization. But the end of the Cold War posed the question of where the threat to US security was coming from. Radical Islam and China emerged as the top two candidates externally, and dissident internal movements (the Branch Dravidians incinerated at Waco, militia movements that gave succour to the Oklahoma bombing, the riots that followed the beating of Rodney King in Los Angeles, and finally the disorders that broke out in Seattle in 1999) had to be targeted internally by stronger surveillance and policing. The very real emergence of the threat from radical Islam during the 1990s that culminated in the events of 9/11 finally came to the fore as the central focus for the declaration of a permanent 'war on terror' that demanded militarization both at home and abroad to guarantee the security of the nation. While, plainly, some sort of police/military response to the threat revealed by the two attacks on the World Trade Center in New York was called for, the arrival in power of neoconservatives guaranteed an overarching, and in the judgement of many an overreaching, response in the turn to extensive militarization at home and abroad.[22]

Neoconservatism has long hovered in the wings as a movement against the moral permissiveness that individualism typically promotes. It therefore seeks to restore a sense of moral purpose, some higher-order values that will form the stable centre of the body politic. This possibility is in a way presaged within the framework of neoliberal theories which, 'by questioning the very political foundation of interventionist models of economic management . . . have brought issues of morality, justice and power—although in their own peculiar ways—back into economics'.[23] What the neoconservatives do is to change the 'peculiar ways' in which such questions enter into debate. Their aim is to counteract the dissolving effect of the chaos of individual interests that neoliberalism typically produces. They in no way depart from the neoliberal agenda of a construction or restoration of a dominant class power. But they seek legitimacy for that power, as well as social control through construction of a climate of consent around a coherent set of moral values. This immediately poses the question of which moral values should prevail. It would, for example, be entirely feasible to appeal to the liberal system of human rights since, after all, the aim of human rights activism, as Mary Kaldor argues, 'is not merely intervention to protect human rights but the creation of a moral community'.[24] In the US, doctrines of 'exceptionalism' and the long history of civil rights activism have certainly generated moral movements around issues such as civil rights, global hunger, and philanthropic engagement, as well as missionary zeal.

But the moral values that have now become central to the neoconservatives can best be understood as products of the particular coalition that was built in the 1970s, between elite class and business interests intent on restoring their class power, on the one hand, and an electoral base among the 'moral majority' of the disaffected white working class on the other. The moral values centred on cultural nationalism, moral righteousness, Christianity (of a certain evangelical sort), family values, and right-to-life issues, and on antagonism to the new social movements such as feminism, gay rights, affirmative action, and environmentalism. While this alliance was mainly tactical under Reagan, the domestic disorder of the Clinton years forced the moral values argument to the top of the agenda in the Republicanism of Bush the younger. It now forms the core of the moral agenda of the neoconservative movement.[25]

But it would be wrong to see this neoconservative turn as exceptional or peculiar to the US, even though there are special elements at work there that may not be present elsewhere. Within the US this assertion of moral values relies heavily on appeals to ideals of nation, religion, history, cultural tradition, and the like, and these ideals are by no means confined to the US. This brings one of the more troubling aspects of neoliberalization more sharply back into focus: the curious relationship between state and nation. In principle, neoliberal theory does not look with favour on the *nation* even as it supports the idea of a strong state. The umbilical cord that tied together state and nation under embedded liberalism had to be cut if neoliberalism was to flourish. This was particularly true for states, such as Mexico and France, that took a corporatist form. The Partido Revolucionario Institucional in

Mexico had long ruled on the theme of unity of state and nation, but that increasingly fell apart, even turning much of the nation against the state, as a result of neoliberal reforms during the 1990s. Nationalism has, of course, been a long-standing feature of the global economy and it would have been strange indeed if had sunk without trace as a result of neoliberal reforms; in fact it has revived to some degree in opposition to what neoliberalization has been about. The rise of right-wing fascist parties expressive of strong anti-immigrant sentiments in Europe is a case in point. Even more distressing was the ethnic nationalism that arose in the wake of Indonesia's economic collapse, which resulted in a brutal assault upon the Chinese minority.

But, as we have seen, the neoliberal state needs nationalism of a certain sort to survive. Forced to operate as a competitive agent in the world market and seeking to establish the best possible business climate, it mobilizes nationalism in its effort to succeed. Competition produces ephemeral winners and losers in the global struggle for position, and this in itself can be a source of national pride or of national soul-searching. Nationalism around sports competitions between nations is a sign of this. In China, the appeal to nationalist sentiment in the struggle to procure the state's position (if not hegemony) in the global economy is overt (as is the intensity of its training programme for athletes for the Beijing Olympics). Nationalist sentiment is equally rife in South Korea and Japan, and in both instances this can be seen as an antidote to the dissolution of former bonds of social solidarity under the impact of neoliberalism. Strong currents of cultural nationalism are stirring within the old nation-states (such as France) that now constitute the European Union. Religion and cultural nationalism provided the moral heft behind the Hindu Nationalist Party's success in enhancing neoliberal practices in India in recent times. The invocation of moral values in the Iranian revolution and the subsequent turn to authoritarianism has not led to total abandonment of market-based practices there, even though the revolution was aimed at the decadence of unbridled market individualism. A similar impulse lies behind the long-standing sense of moral superiority that pervades countries such as Singapore and Japan in relationship to what they see as the 'decadent' individualism and the shapeless multiculturalism of the US. The case of Singapore is particularly instructive. It has combined neoliberalism in the marketplace with draconian coercive and authoritarian state power, while invoking moral solidarities based on the nationalist ideals of a beleaguered island state (after its ejection from the Malaysian federation), Confucian values, and, most recently, a distinctive form of the cosmopolitan ethic suited to its current position in the world of international trade.[26] The British case is particularly interesting. Margaret Thatcher, through the Falklands/Malvinas war and in her antagonistic posture towards Europe, invoked nationalist sentiment in support of her neoliberal project, though it was the idea of England and St George, rather than the United Kingdom, that animated her vision—which turned Scotland and Wales hostile.

Clearly, while there are dangers in the neoliberal dalliance with nationalism of a certain sort, the fierce neoconservative embrace of a national moral purpose is far more threatening. The picture of many states, each prepared to resort to draconian coercive practices while each espousing its own distinctive and supposedly superior moral values, competing on the world stage is not reassuring. What seems like an answer to the contradictions of neoliberalism can all too easily turn into a problem. The spread of neoconservative, if not outright authoritarian, power (of the sort Vladimir Putin exercises in Russia and the Communist Party exercises in China), albeit grounded very differently in different social formations, highlights the dangers of descent into competing and perhaps even warring nationalisms. If there is an inevitability at work, then it arises more out of the neoconservative turn than out of eternal truths attaching to supposed national differences. To avoid catastrophic outcomes therefore requires rejection of the neoconservative solution to the contradictions of neoliberalism. This presumes, however, that there is some alternative: and that question will be addressed later.