

## **The End of Neoliberal Ideology**

**Article by Igor Matutinovic**

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Are government responses to the coronavirus crisis across the globe evidence that neoliberalism's days are numbered? Already on the rocks since 2008, its ideological offer no longer poses a credible route out of our multiple crises. Igor Matutinovic explains the neoliberal worldview and its social and ecological consequences. From pandemics to growing inequalities and climate breakdown, the complex problems of our times call for new solutions.

With the US Congress approving up to 3 trillion dollars of federal spending on Covid-19 relief and the EU proposing 750 billion euros on post-pandemic economic recovery, neoliberalism – with its emphasis on the market and minimal state interference – may seem increasingly irrelevant. Two massive state interventions in the economy, first after the 2008 financial crisis and now once more, surely must mean the end of neoliberalism's already shaky ideological sway. History shows, however, that powerful ideas die hard. Even when they collapse, they are never entirely extinct, especially if taught at universities as uncontested truths. But can we afford to leave the next pandemic to the private health sector? As Yanis Varoufakis has pointed out, it has done little in the current pandemic. Or is it time to reinforce the public health system and the social safety nets in order to make future crises less severe? Before addressing visions of a better future, a critical review of the principles of neoliberalism and their consequences must take place.

### **The history of an ideology**

Neoliberalism has evolved since the end of World War II as an entangled set of values, beliefs, theoretical concepts, political orientations, and vested interests. Its origins trace back to the Mont-Pelerin Society founded by Friedrich von Hayek in 1947, which brought together renowned scholars such as Ludwig von Mises, Milton Friedman, and Karl Popper. These thinkers were motivated by fear of communist, state-controlled, non-democratic societies. As Victor Shammas observed, “the Mont-Pelerin Society was committed to quasi-evangelical proselytism of the market creed.” Its members saw danger in government power and expansion. Their belief in the supremacy of markets and distrust in government harks back to classical liberal economists such as Adam Smith. Smith considered that the state should play the role of the “night watchman”, not intervening in the economic process and merely enforcing contracts between economic subjects. However, as Eric Hobsbawm put it, “neoliberalism was a reduction ad absurdum of Adam Smith's ideas.”<sup>[1]</sup>

One of the major neoliberal contradictions lies in the belief that the market economy is in itself stable, a view shared by monetarists such as Milton Friedman, and orthodox economists more generally. The historical experience of recurrent recessions and financial crises, which invariably lead to state intervention, points to the contrary. Friedman's attitude towards freedom was central to his commitment to neoliberalism. He once stated: “If the free-market economy were not the most efficient system, I would even then want it – because of the values it stands for: freedom of choice, facing challenges, taking risks.”<sup>[2]</sup> But the idea that neoliberalism is about risk-taking is undermined by the repeated systemic reliance on the state for bailouts and stimulus packages. Neoliberals do not oppose state intervention when it funnels taxpayer money to cover economy-wide private sector losses. Afterwards, however, they invariably ask governments to move away and shrink social and welfare expenditures to foot the

bill. This inconsistency serves the corporate sector's interest. Pseudo-scientific libertarian think-tanks can be relied upon to make the case for policies – from income tax reductions to banking deregulation – that benefit this tiny but powerful minority.

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Neoliberal tenets such as public choice, rational choice, supply-side economics, and monetarism are taught to the business and political elites as part of the standard curricula of mainstream economics. These theories are based on absurd assumptions that Adam Smith would never have entertained, such as the idea that humans operate like rational, egoistic agents who maximise their self-interest from a stable set of preferences and act based on perfect information. These assumptions are applied across the board, to consumers, entrepreneurs, voters, legislators, bureaucrats, and even couples considering marriage. Aggregate social behaviour is simply seen as the sum total of the actions of many individuals; it is not understood as part of a coherent political or social system. A famous quote from Margaret Thatcher exemplifies this mindset: “There’s no such thing as society. There are individual men and women and there are families”. Where there is no society, there is no social solidarity, no common goals or aspirations, much less responsibilities towards future generations or the environment on which we depend. What is left is purposeless economic growth and individual wealth accumulation for the few. Until, that is, the next crisis when government and taxpayer money are discovered once more. Private sector bailouts followed by austerity: this is the political platform of neoliberalism, concealed behind false promises of self-regulating markets and the technicalities of an obsolete monetary theory.

In the past 40 years, neoliberal ideology has enabled the financialisation of the economy and financial sector deregulation. The economy is more unstable and corporate investments have dropped. It has led to decreasing productivity and growth rates, the shrinking of public sector services, the growth of public debt, a sharp rise in insecure work, and an upsurge of income inequality. As the current pandemic crisis reveals, it has created an extremely weak private sector in terms of capital reserves. Many businesses cannot withstand two months of inactivity without largescale layoffs and government aid. With neoliberalism, capitalism may have touched its lowest levels of resilience. A question immediately arises: how has it managed to survive so long? Robert Kuttner offers a plausible answer: “neoliberal theory lived on because it was so convenient for elites, and because of the inertial power of the intellectual capital that had been created.” The disappearance of countervailing ideologies after the fall of the Berlin Wall and the consequent damage to socialist ideas and left-wing parties certainly played a part too.

## **A recipe for disaster**

We live in a world that is pressing on its biophysical boundaries, especially regarding climate change and biodiversity loss. Continuous human expansion into natural habitats and species extinction are opening the door for the transmission of new pathogens, such as Covid-19. These diseases challenge both health systems and our everyday lives. Extreme income inequality – both between and within nations – is unravelling the social fabric and undermining global stability. Massive investments in infrastructure, welfare, health, and education systems are needed to face these problems in an effective manner. We must rethink our relationship with nature, our lifestyles, and our values more generally. Imagine confronting all these unprecedented challenges with an ideology that makes no room for society, that leaves the future to the whims of markets, and that is committed to unbridled economic growth.

By rejecting the reality of society, neoliberalism fails to recognise sociality as the fundamental property of human species. We did not survive as isolated and selfish individuals lumped in abstract groups but on the contrary as members of culturally distinct communities bound together with common values, beliefs, and a sense of belonging. An individual becomes genuinely human only through socialisation, and this never takes place at the level of a nuclear family alone. All significant human accomplishments have a social base: from the use of fire to the Moon landing, from the Neolithic revolution to complex industrial societies. Our gravest aberrations and pathologies – from common warfare motivated by plunder to the Holocaust tragedy – also happen at the societal level. The idea that there is no society does not stand up to scrutiny and is no base for sound economic and public policy.

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The premise of methodological individualism – where group dynamics arise spontaneously from individual properties alone – fails to recognise that, in complex systems, new organisational levels bring emergent properties, which cannot be predicted from the characteristics of individual agents. Apart from our biologically innate cognitive abilities and instinctive behaviours, all other non-trivial skills are formed through socialisation. Individuals are embedded in and shaped by our constitutive societies: our behaviour is constrained by institutions, values, and beliefs that arise at the higher hierarchical level, that of society. Societies, not individuals, face and manage large-scale crises, from natural disasters and pandemics to climate change.

Addressing climate change, which concerns many future generations in many distinct societies around the world, depends on the concept of society and a vision of a common future. Indeed, we need to move one level up, transcend the interests of our local societies and think in terms of our species and as one interconnected global society. The much-needed investment in climate mitigation and adaptation should not be bound by arbitrary debt ratios or the recourse to private markets when other, more rational means to finance public spending are available. Using neoliberal ideology to address the challenges that lie ahead would be like facing a bear armed with a needle.

## **After neoliberalism?**

If neoliberal ideology is descending rapidly into the dustbin of history, what will replace it? For sure, many of its ideas will linger on in the graduate courses of neoclassical economics, the public musings of orthodox economists, and the rhetoric of conservative politicians. Yet the past decade has seen a reignition of alternative ideas in heterodox economics, from Keynesianism and old institutionalism to ecological economics.

These new ideas will likely be compatible with the political orientations of social democratic and green parties. A generation of political economists like Mariana Mazzucato is breaking with long-established dogmas to supply fresh thinking about the importance of the government for the climate crisis, income inequality, and building a good society. Her work focuses on shaping the new economy – one that works for the common good – by the state taking the “economy on a mission”, instead of abiding by the passive and minimal role imposed on it by neoliberalism.[3] She is not alone in such thinking. Other unorthodox economists such as Ha-Joon Chang have argued that the best way for the government to keep the economy stable, equitable, and dynamic is to build a stronger welfare state, properly regulate the financial sector, and set industrial policy.[4] In the context of industrial policy for sustainability, for example, the government would define social priorities, such as the shift to a circular economy, and then streamline the private sector so as to accomplish them. Guided by the state, the private sector

would have two key functions: first, to self-organise around fulfilling specific needs and objectives as set by industrial strategy, and second, to generate the innovations under the joint stimulus of subsidies and competitive processes. Where necessary, the government can step in with investment, ownership, or the funding of primary research.

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In dealing with complex problems such as climate change, income inequality, or lockdowns, we need competent governments with efficient and widely accessible public institutions and services. Markets are too narrowly focused and short-term oriented to respond to such challenges. They can act as distributed problem-solving systems but cannot provide society with an orientation, contrary to free-market orthodoxy.

Another unorthodox economist and proponent of the Modern Monetary Theory is Stephanie Kelton. Kelton, who advised Bernie Sanders's US presidential campaign, is overturning common understandings about the limits of government debt by relating public spending to "potential GDP" and real resource constraints. The argument is that if a national economy has available resources – human, capital, and natural – they can be immediately put to use to meet societal priorities without creating inflationary pressure (that is, staying within potential GDP). For example, under the Money-Financed Fiscal Program, the central bank can credit the Treasury with new money, or the government can increase its debt by issuing bonds. The central bank agrees to buy and hold the bonds indefinitely, rebating any interest received to the Treasury. In both cases, there is no burden of future debt repayment nor the need for future tax increases. This policy was not possible in preindustrial societies where any new issuance of coinage would bump immediately against the technical impossibility to increase output and thus result invariably in inflation. Today's highly productive, technology-based societies do not face the same limits. There is no need to create a formal debt nor to be constrained by arbitrary debt-to-GDP ratios in pursuing policies for the common good. There is only the resource constraint. Accepting this view may be one of the major game-changers in solving pressing problems such as climate change, which require timely, large-scale investments and broad political support.

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The resources needed to confront the pandemic-induced recession in the short term and the climate crisis in the long term are at hand. There is no resource constraint to prevent starting the Green New Deal for Europe tomorrow. In April 2020, the EU capacity utilisation in industry stood at 70.1 per cent and in the past 25 years, it never went above 85 per cent, meaning that there is sufficient spare capacity to absorb new government spending without pushing up inflation. Imposing austerity policies in today's situation would be without sound economic basis. It would be patently counterproductive, with the only likely consequence being to push voters into the arms of the populist right – as happened after the 2008-2009 recession – and thus undermine the future of the EU. We cannot forget the fatal mistakes of 20th-century nationalism yet.

The leaders of a large portion of the corporate sector, like those gathered around the US Business Roundtable, are publicly rejecting one of the pillars of neoliberal ideology – that of serving the interests of shareholders only – and expressing their commitment to all of their stakeholders. Another large group of companies, worth a combined 2.4 trillion dollars and based mostly in Europe, have added their voice to a growing chorus calling for the economic

recovery from the coronavirus to be green. These, as well as other initiatives, show that the private sector is ready for change. Governments have to use this opportunity to move towards sustainable and just economies and the Social Democrats, the Greens, and other progressive parties on the Left should take the lead.

Neoliberal ideology did not originate as a spontaneous evolution of capitalism. It is an intellectual construct, based on bad science, that arose under specific political circumstances in the aftermath of World War II. It spread into the political arena through influential economists at a particular historical moment in the late 1970s. Its fathers are long dead, and it is time for us to put it under the tombstone of history.

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## Footnotes

[1] Eric Hobsbawm (2011). *How to Change the World: Tales of Marx and Marxism*. London: Little, Brown.

[2] S. K. Sarkar (2012). *The Crises of Capitalism: A Different Study of Political Economy*. Counterpoint Press.

[3] Mariana Mazzucato (2018). *The Value of Everything*. London: Penguin.

[4] Ha-Joon Chang (2012). *23 Things They Don't Tell You About Capitalism*. USA: Bloomsbury Publishing.

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