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A Brief History of Neoliberalism

David Harvey

Introduction

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

There has everywhere been an emphatic turn towards neoliberalism in political-economic practices and thinking since the 1970s. Deregulation, privatization, and withdrawal of the state from many areas of social provision have been all too common. Almost all states, from those newly minted after the collapse of the Soviet

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

The process of neoliberalization has, however, entailed much 'creative destruction', not only of prior institutional frameworks and powers (even challenging traditional forms of state sovereignty) but also of divisions of labour, social relations, welfare provisions, technological mixes, ways of life and thought, reproductive activities, attachments to the land and habits of the heart. In so far as neoliberalism values market exchange as 'an ethic in itself, capable of acting as a guide to all human action, and substituting for all previously held ethical beliefs', it emphasizes the significance of contractual relations in the marketplace. It holds that the social good will be maximized by maximizing the reach and frequency of market transactions, and it seeks to bring all human action into the domain of the market.

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The Moving Map of Neoliberalization

A moving map of the progress of neoliberalization on the world stage since 1970 would be hard to construct. To begin with, most states that have taken the neoliberal turn have done so only partially – the introduction of greater flexibility into labour markets here, a deregulation of financial operations and embrace of monetarism there, a move towards privatization of state-owned sectors somewhere else. Wholesale changes in the wake of crises (such as the collapse of the Soviet Union) can be followed by slow reversals as the unpalatable aspects of neoliberalism become more evident. And in the struggle to restore or establish a distinctive upper-class power all manner of twists and turns occur as political powers change hands and as the instruments of influence are weakened here or strengthened there. Any moving map would therefore feature turbulent currents of uneven geographical development that need to be tracked in order to understand how local transformations relate to broader trends.

Competition between territories (states, regions, or cities) as to who had the best model for economic development or the best business climate was relatively insignificant in the 1950s and 1960s. Competition of this sort heightened in the more fluid and open systems of trading relations established after 1970. The general progress of neoliberalization has therefore been increasingly impelled *through* mechanisms of uneven geographical developments. Successful states or regions put pressure on everyone else to follow their lead. Leapfrogging innovations put this or that state (Japan, Germany, Taiwan, the US, or China), region (Silicon Valley, Bavaria, Third Italy, Bangalore, the Pearl River delta, or Botswana), or even city (Boston, San Francisco, Shanghai, or Munich) in the vanguard of capital accumulation. But the competitive advantages all too often prove ephemeral, introducing an extraordinary volatility into global capitalism. Yet it is also true that powerful impulses of neoliberalization have emanated, and even been orchestrated, from a few major epicentres.

Clearly, the UK and the US led the way. But in neither country was the turn unproblematic. While Thatcher could successfully privatize social housing and the public utilities, core public services such as the national health-care system and public education remained largely immune. In the US, the 'Keynesian compromise' of the 1960s had never got close to the achievements of social democratic states in Europe. The opposition to Reagan was therefore less combative. Reagan was, in any case, heavily preoccupied with the Cold War. He launched a deficit-funded arms race ('military Keynesianism') of specific benefit to his electoral majority in the US south and west. While this certainly did not accord with neoliberal theory, the rising Federal deficits did provide a convenient excuse to gut social programmes (a neoliberal objective).

In spite of all the rhetoric about curing sick economies, neither Britain nor the US achieved high levels of economic performance in the 1980s, suggesting that neoliberalism was not the answer to the capitalists' prayers. To be sure, inflation was brought down and interest rates fell, but this was all purchased at the expense of high rates of unemployment (averaging 7.5 per cent in the US during the Reagan years and more than 10 per cent in Thatcher's Britain). Cutbacks in state welfare and infrastructural expenditures diminished the quality of life for many. The overall result was an awkward mix of low growth and increasing income inequality. And in Latin America, where the first wave of forced neoliberalization struck in the early 1980s, the result was for the most part a whole 'lost decade' of economic stagnation and political turmoil.

The 1980s in fact belonged to Japan, the East Asian 'tiger' economies, and West Germany as competitive powerhouses of the global economy. Their success in the absence of any wholesale neoliberal reforms makes it difficult to argue that neoliberalization progressed on the world stage as a proven palliative of economic stagnation. To be sure, the central banks in these countries generally followed a monetarist line (the West German Bundesbank was particularly assiduous in combating inflation). And gradual reductions in trade barriers created competitive pressures that resulted in a subtle process of what might be called 'creeping neoliberalization' even in countries generally resistant to it. The Maastricht agreement of 1991, for example, which set a broadly neoliberal framework for the internal organization of the European Union, would not have been possible had there not been pressure from those states, such as Britain, that had committed themselves to neoliberal reforms. But in West Germany the trade unions remained strong, social protections were kept in place, and wage levels continued to be relatively high. This stimulated the technological innovation that kept West Germany well ahead of the field in international competition in the 1980s (though it also produced technologically induced unemployment).

Export-led growth powered the country forward as a global leader. In Japan, independent unions were weak or non-existent and rates of labour exploitation were high, but state investment in technological change and the tight relationship between corporations and banks (an arrangement that also proved felicitous in West Germany) generated an astonishing export-led growth performance in the 1980s, very much at the expense of the UK and the US. Such growth as there was in the 1980s did not depend, therefore, on neoliberalization except in the shallow sense that greater openness in global trade and markets provided the context in which the export-led success stories of Japan, West Germany, and the Asian 'tigers' could more easily unfold in the midst of intensifying international competition. By the end of the 1980s those countries that had taken the stronger neoliberal path still seemed to be in economic difficulty. It was hard not to conclude that the West German and Asian 'regimes' of accumulation were deserving of emulation. Many European states therefore resisted neoliberal reforms and embraced the West German model. In Asia, the Japanese model was broadly emulated first by the 'Gang of Four' (South Korea, Taiwan, Hong Kong, and Singapore) and then by Thailand, Malaysia, Indonesia, and the Philippines.

The West German and the Japanese models did not, however, facilitate the restoration of class power. The increases in social inequality to be found in the UK and particularly in the US during the 1980s were held in check. While rates of growth were low in the US and the UK, the standard of living of labour was declining significantly and the upper classes were beginning to do well. The rates of remuneration of US CEOs, for example, were becoming the envy of Europeans in comparable positions. In Britain, a new wave of entrepreneurial financiers began to consolidate large fortunes. If the project was to restore class power to the top elites, then neoliberalism was clearly the answer. Whether or not a country could be pushed towards neoliberalization then depended upon the balance of class forces (powerful union organization in West Germany and Sweden held neoliberalization in check) as well as upon the degree of dependency of the capitalist class on the state (very strong in Taiwan and South Korea).

The means whereby class power could be transformed and restored were gradually but unevenly put into place during the 1980s and consolidated in the 1990s. Four components were critical in this. First, the turn to more open financialization that began in the 1970s accelerated during the 1990s. Foreign direct investment and portfolio investment rose rapidly throughout the capitalist world. But it was spread unevenly, often depending on how good the business climate was here as opposed to there. Financial markets experienced a powerful wave of innovation and deregulation internationally. Not only did they become far more important instruments of co-ordination, but they also provided the means to procure and concentrate wealth. They became the privileged means for the restoration of class power. The close tie between corporations and the banks that had served the West Germans and the Japanese so well during the 1980s was undermined and replaced by an increasing connectivity between corporations and financial markets (the stock exchanges). Here Britain and the US had the advantage. In the 1990s, the Japanese economy went into a tailspin (led by a collapse in speculative land and property markets), and the banking sector was found to be in a parlous state. The hasty reunification of Germany created stresses, and the technological advantage that the Germans had earlier commanded dissipated, making it necessary to challenge more deeply its social democratic tradition in order to survive.

Secondly, there was the increasing geographical mobility of capital. This was in part facilitated by the mundane but critical fact of rapidly diminishing transport and communications costs. The gradual reduction in artificial barriers to movement of capital and of commodities, such as tariffs, exchange controls, or, even more simply, waiting times at borders (the abolition of which in Europe had dramatic effects) also played an important role. While there was considerable unevenness (Japan's markets remained highly protected, for example), the general thrust was towards standardization of trade arrangements through international agreements that culminated in the World Trade Organization agreements that took effect in 1995 (more than a hundred countries had signed on within the year). This greater openness to capital flow (primarily US, European, and Japanese) put pressures on all states to look to the quality of their business climate as a crucial condition for their competitive success. Since a degree of neoliberalization was increasingly taken by the IMF and the World Bank as a measure of a good business climate, the pressure on all states to adopt neoliberal reforms ratcheted upwards.

Thirdly, the Wall Street–IMF–Treasury complex that came to dominate economic policy in the Clinton years was able to persuade, cajole, and (thanks to structural adjustment programmes administered by the IMF) coerce many developing countries to take the neoliberal road. The US also used the carrot of preferential access to its huge consumer market to persuade many countries to reform their economies along neoliberal lines (in some instances through bilateral trade agreements). These policies helped produce a boom in the US in the 1990s. The US, riding a wave of technological innovation that underpinned the rise of a so-called 'new economy', looked as if it had the answer and that its policies were worthy of emulation, even though the relatively full employment achieved was at low rates of pay under conditions of diminishing social protections (the number of people without health insurance grew). Flexibility in labour markets and reductions in welfare provision (Clinton's draconian overhaul of 'the welfare system as we know it') began to pay off for the US and put competitive pressures on the more rigid labour markets that prevailed in most of Europe (with the exception of Britain) and Japan. The real secret of US success, however, was that it was now able to pump high rates of return into the country from its financial and corporate operations (both direct and portfolio investments) in the rest of the world. It was this flow of tribute from the rest of the world that founded much of the affluence achieved in the US in the 1990s.

Lastly, the global diffusion of the new monetarist and neoliberal economic orthodoxy exerted an ever more powerful ideological influence. As early as 1982, Keynesian economics had been purged from the corridors of the IMF and the World Bank. By the end of the decade most economics departments in the US research universities – and these helped train most of the world's economists – had fallen into line by broadly cleaving to the neoliberal agenda that emphasized the control of inflation and sound public finance (rather than full employment and social protections) as primary goals of economic policy.

All of these strands came together in the so-called 'Washington Consensus' of the mid-1990s. The US and UK models of neoliberalism were there defined as the answer to global problems. Considerable pressure was put even on Japan and Europe (to say nothing of the rest of the world) to take the neoliberal road. It was, therefore, Clinton and then Blair who, from the centre-left, did the most to consolidate the role of neoliberalism both at home and internationally. The formation of the World Trade Organization was the high point of this institutional thrust (though the creation of NAFTA and the earlier signing of the Maastricht accords in Europe were also significant regional institutional adjustments). Programmatically, the WTO set neoliberal standards and rules for interaction in the global economy. Its primary objective, however, was to open up as much of the world as possible to unhindered capital flow (though always with the caveat clause of the protection of key 'national interests'), for this was the foundation of the capacity of the US financial power as well as that of Europe and Japan, to exact tribute from the rest of the world.

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