

Neoliberalism under Debate

A review article by Duccio Cavalieri

Michael Charles Howard and John Edward King, *The Rise of Neoliberalism in Advanced Capitalist Economies: A Materialist Analysis*, Palgrave Macmillan, London, 2008, hardcover, pp. vi-320, \$ 90,00.

Serge Audier, *Le Colloque Lippmann. Aux origines du néolibéralisme*, Éditions “Le bord de l’eau”, Latresne, 2008, unbounded, pp. 355, euro 18,00.

Philip Mirowski and Dieter Plehwe, eds., *The Road from Mont Pèlerin: The Making of the Neoliberal Thought Collective*, Harvard University Press, Cambridge, Mass., 2009, bound edition, pp. vi-469, euro 49,50.

1. Michael C. Howard and John E. King – a Canadian economist and anthropologist and an Australian historian of economic thought (a specialist in post Keynesian economics and the editor of an Elgar companion on the subject) – are widely known as the authors of a popular book on *The Political Economy of Marx* and of a two-volumes history of Marxian economics. In their new book on neoliberalism they look at historical materialism as the intellectually strongest dimension of Marxian analysis and provide a critical explanation of the rise of neoliberalism in capitalist economies which centers the attention on the causal significance of changes in productive forces and in social relations of production, rather than on ideological or superstructural factors.

As they believe in the pervasive strength of updated historical materialism, both as a general theory applicable to every economic system and as a specific explanation of advanced capitalism, they reject the criticisms of internal contradiction which has been often moved to Marxism for the causal primacy it assigns to productive forces rather than to human free will choices. They maintain that the primary role ascribed by Marx to labour power and the material means of production should be intended as subject to constraints stemming from human nature.

Using a rigid taxonomic approach, Howard and King define six main propositions of historical materialism – which they call the development, compatibility, fettering, primacy, superstructure and uniqueness theses – and identify five mechanisms to select the best economic system: those of rational choice of individuals, market competition, exogenous shocks, group struggles and geopolitical rivalries. Here is an excerpt of their alleged non-contradictory reformulation of historical materialism: “The *development thesis* states that the productive forces have a natural tendency to develop. The *compatibility thesis* maintains that no set of production relations is best suited to all levels of development in the productive forces. The *fettering thesis* adds that... pressures (to change) will tend to generate crises of various kinds. The *primacy thesis* claims that any compatibility between the productive forces and production relations is achieved by functional adaptation of the productive relations to the development requirements of the productive forces. The *superstructural thesis* declares that the superstructure is as it is...” (pp. 24-25). They conclude that historical materialism, so reformulated, as a general theory of historical directionality, is the best way for understanding economic development.

Thus historical materialism is not conceived by the authors of this book as strict economic or technological determinism. But no distinction is made between Marx's historical materialism, which is a philosophy of history centered on class struggle, due to the fundamental contradiction between the productive forces and the social conditions of production, and Engels's dialectical materialism, a dogmatic ontological vision of the world, which does not distinguish the dialectics of nature from the dialectics of society.

The authors of the book do not share the view that Marx tried to substitute materialism to idealism for philosophical reasons: that is to reaffirm the primacy of structure over superstructure, of productive forces over institutional and social relations, and of practical reason over the philosophy of liberty, a cornerstone of liberalism. But the historical materialist conception they propose to substitute is no longer tenable. It is an old archeological find that belongs to an outdated uncritical kind of Marxism.

Howard and King describe neoliberalism as a refutation of much of the twentieth century social and economic thought and as a theoretical conception with unacceptable distributional effects, destined to be reversed by financial crises and by the anti-cyclical policies which must be made to counteract them. Their attention is focused on some known contradictions of an outdated historical capitalism far different from that of the present post-Fordist age of flexible specialization. They do not seem to remind the epistemological debate on Marxism and liberalism which opposed in Germany in the 1960s the Hegelians (Adorno, Habermas, Apel, Riedel) to the post-positivists, or rational critics (Popper, Albert). They maintain that the belief in market elimination has been a dominant view of economists in the twentieth century. They assert that "Marxian, Keynesian, institutional and neoclassical economist all believed that there was a trend towards the elimination of markets" (p. 9). And they claim to be the forerunners in contrasting this view.

Four chapters over eight of the book are devoted by the authors to a criticism of the alleged forecasting errors of other economists (at "illuminating their mistakes in claiming that there was a tendency for advanced capitalist economies to experience market elimination – the exact opposite of what occurred with the onset of neoliberalism"). This questionable criticism is indiscriminately directed to Marx, Veblen, Keynes, Hayek, Schumpeter, Galbraith and other economists, who, according to the authors of the book, believed in a trend towards oligopoly collusion and in the reduction of the significance of the market.

As concerns Marx (who, it is explained, "used the principles of historical materialism to predict the decline of the market", p. 77), the authors think that his empirical studies led him to the erroneous identification of five reasons to expect the progressive decay of the market as a result of capitalist development. They are the role played by the economies of scale in the centralization of industrial capital, the growth of the credit system, the increasing importance of cartels and trusts which reduce competition, the effects of the introduction of the Factory Acts in the labour market and the increasing role of science in the production of public goods.

The authors maintain that both the Marxist revisionists (Bernstein, Schmidt, Hilferding) and the Marxist orthodox (Kautsky, Cunow, Plechanov) endorsed the Marxian view that, with the progress of the economic and technical centralization of capital, contemporary capitalism would rely less on the market and more on the State. And they say that Rosa Luxemburg was the only major orthodox participant in the revisionist debate which took place at the times of the Second International who did not anticipate the collapse of capitalism due to the decline in the market.

The orthodox thesis, however, was somewhat different. It implied that the growth of capitalist production would proceed more rapidly than the expansion of the home market and that this fact would entail the rise of imperialist tendencies and the worsening of internal contradictions in the capitalist system, so to hasten its breakdown and to make the passage to a socialist system unavoidable.

Another chapter of the book provides “a historical account of the onset of neoliberalism in advanced capitalism which stresses the importance of the contradictions inherent in the institutions prevalent in the postwar era”. And a final chapter seeks to answer the question of what could reverse neoliberalism. The authors’ emphasize the role of financial crises and of the predictable necessity for deregulation to come to an end.

2. The second book on neoliberalism here reviewed is a different one. It is an intellectual history of the origin of neoliberalism, written with the purpose of supporting the legitimacy for the left to claim a substantial share of the heritage of liberal thought. It contains a reprint of the proceedings of the Walter Lippman Conference on neoliberalism, held in Paris on August 26-30, 1938, together with a long and detailed introduction (240 pages) by Serge Audier, *maître de conférences en philosophie morale et politique* in the Paris-Sorbonne University and author of two recent and controversial books, *Le socialisme libérale*) and *La pensée anti-68. Essai sur l’origine d’une restauration intellectuelle*, published by La Découverte, Paris (2006 and 2008).

In a period in which liberalism was severely threatened in Europe by right and left-wing totalitarianisms, Walter Lippmann (1889-1974), a well known American political columnist, had written a book, *An Inquiry into the Principles of the Good Society* (Little, Brown, Boston, 1937), translated in 1938 in French with the title *La Cité libre* and a preface by André Maurois, where he claimed that the market economy was not the result of a natural order and proposed a fundamental renewal of historical liberalism. It had to be pursued through the launching of a leftist ‘liberal’ economic program, characterized by heavy death duties and by a very progressive taxation, devised to finance a large-scale growth of public services.

The Lippmann Conference was a true landmark in the history of liberalism. It was organized by Louis Rougier, a French irrationalist right-wing philosopher, follower of Paretian doctrines and one of the founders of the neoliberal publishing house “La Librairie des Médicis”, who later on defended the Vichy government of Petain and wrote a book on *Les Accords Pétain-Churchill* (Beauchemin, Montréal, 1945), later reedited by Alain De Benoist, the French theoretician of “La Nouvelle Droite”. The conference was attended by 26 distinguished invited participants. They included Raymond Aron, Friedrich Hayek, Michael Heilperin, Bernard Lavergne, Walter Lippmann, Étienne Mantoux, Robert Marjolin, Ludwig von Mises, Michael Polanyi (Karl’s brother), Wilhelm Röpke, Roger Auboin, Jacques Rueff, Alexander Rüstow and others. Luigi Einaudi and José Ortega y Gasset were invited, but could not attend the meeting. The Marxist theorist Rudolf Hilferding, who asked to attend the meeting, was not allowed by Rougier.

That conference is now regarded as the initial moment of the variegated galaxy of new liberalism, a diversified political doctrine which aims at reconciling personal liberty and the social system, under the rule of law. During the conference different views emerged on several important points: the epistemic status of liberalism (a science, or an ideology), the ultimate meaning of freedom (the positive and the negative conceptions; an end in itself, or a means), the faith in the market capacity to reach an equilibrium position, the relations of personal liberty to private property and to social

justice, the acceptance or rejection of government interventionism and the role of industrial concentration. Unfortunately, as remarked by Rougier in the *avant-propos du Colloque*, the report of the conference is incomplete, because the speeches in English could not be recorded. Neoliberalism was defined by Rougier through a metaphor: “To be a liberal does not mean to be a ‘Manchesterian’ who leaves the cars circulating in all directions, if such is their will, which can only result in traffic jams and incessant accidents; it does not mean to be a ‘planist’ who gives every car its exit time and its route; it means to impose a highway code...”.

Audier’s book is not really a historical narration. But it contains a set of pen-portraits on the protagonists of the Lippmann Conference and performs a useful function in clarifying the nature of the different views on neoliberalism of two important school of thought, the German school of Rüstow and Röpke and the Austrian school of Mises and Hayek, both of which were at odds with neoclassical economics.

These distinct conceptions of liberalism were later destined to become even more evident in the Mont-Pèlerin Society (MPS), a cultural group founded by neoliberals in 1947 in a Swiss Alp village close to Lake of Geneva, from which it was named. The society’s statement of aims, drafted by Robbins and exposed by Lippmann, emphasized the central role of the competitive market mechanism for preserving individual freedom and contained six core principles. They concerned the analysis of the role of market mechanism, the redefinition of the main functions of the state in relation to the market, the reestablishment of the rule of law, the fixing of minimum standards, the opposition to the misuse of history to support conceptions contrary to liberty and the creation of a stable international order. On the whole, they provided a comprehensive picture of neoliberal thought in the 1940s.

MPS was not only conceived as an exclusive debating society financed by private institutions but also a combative anti-Keynesian think-tank. It counted among its prominent members several exponents of the New Austrian school, of the London School of Economics and of the Chicago School. Let us mention Fritz Machlup, Gottfried Haberler, Friedrich Lutz, Lionel Robbins, Frank Knight, Milton Friedman, Karl Brunner, Allan Meltzer, George Stigler, Richard Posner, Ronald Coase, Armen Alchian, Ludwig Erhard, Martin Feldstein, James Buchanan and Gary Becker. The society published a journal, the *Cahiers du Libéralisme*. Its member today are about one thousand. For an ‘insider’ history of its first fifty years, one can see a useful book by Ronald M. Hartwell, a past-president of the society (*History of the Mont Pèlerin Society*, Liberty Fund, Indianapolis, 1995).

Audier’s work offers some perspicuous insights on what was later destined to be a major center of social-liberal thought in Europe: the German-Swiss *Freiburger Schule*, headed by Walter Eucken and closely linked to the ‘ordo-liberal movement’ (which published *ORDO*, a *Jahrbuch für die Ordnung von Wirtschaft und Gesellschaft*). This was an intellectual and political movement that put great emphasis on the social character of economic relations. It favoured government interventions in the economy, denounced the shortcomings of historical capitalism and supported the idea of a non fundamentalist social market economy, smoothly regulated by an impartial state. Röpke and Rüstow were leading exponents of the Freiburg School and firm adversaries of Nazism, by which both of them were forced to leave Germany.

3. The third book on neoliberal thought here reviewed, *The Road from Mont Pèlerin: The Making of the Neoliberal Thought Collective*, is an interesting collection of eleven essays of different

authors jointly edited by Philip Mirowski, professor of economics and the history and philosophy of science at Notre Dame University (the author of *Against Mechanism: Protecting Economic from Science* and of *More Heat than Light*), who wrote a postface to the volume, and by Dieter Plehwe, senior fellow at the Social Science Research Centre, Berlin, who wrote a useful introduction of 42 pages (together with Bernhard Walpen, who however, after a dispute with Mirowski, refused to be mentioned as a co-editor of the book).

The bulky volume, which describes the neoliberal political philosophy in action, is divided in three parts. The first of them contains a local analysis of the origins of the national traditions of neoliberalism in four countries: France (by François Denord, CNRS, Paris), the United Kingdom (Keith Tribe, Univ. of Sussex), Germany (Ralf Ptak, Univ. of Cologne), and the United States (Rob Van Horn and Philip Mirowski). It is shown that differently from France, where neoliberals gave rise to distinct and opposing intellectual groups (the traditional libertarians and radical anticollectivists of Pierre Lhauste-Lachaume and the neoliberal reformists of Maurice Allais, who were in favour of a fundamental renewal of the liberal creed), in Germany they were able to find a common banner under the label of ordo-liberalism and to propose an alternative third way between capitalism and socialism: the ‘social market’ individualist and merit-based economy.

As concerns Britain, in MPS were present, since the beginning of its activities, members of the London School of Economics (paradoxically founded by Fabian socialists and social liberals). British members of MPS were Lionel Robbins, Friedrich Hayek, Ronald Coase and T.S. Ashton. During the period of the Thatcher government, neoliberal economism enjoyed great favour and several MPS liberal economists with a conservative and pragmatic view of society became influential.

Oddly enough, in the US – a country where liberalism means radical progressivism and classic liberals are called ‘conservatives’ – after the last world war there was a growth of right-wing liberalism which focused on the concept of negative liberty and upheld a minimal role of the state in the economy. The word ‘neoliberalism’ was used to mean the controversial *Washington Consensus* monetarist ideology of the US Treasury, whose policy agenda was aimed at ‘spreading western democracy at the periphery’ and encouraging foreign direct investment in developing countries, which was supposed to be a good formula for all countries and at all times and got the support of the IMF, the World Bank, the WTO and other international financial institutions (though it was opposed by Joseph Stiglitz, Jeffrey Sachs, Paul Krugman and other progressive liberals).

In part two of the book, devoted to “Arguing out strategies on targeted topics”, attention is paid on the transformation of neoliberalism during the 1950s and 1960s. There are four separate chapters on applied economics regarding the trade-union policy issue (Yves Steiner, Univ. of Lausanne), antitrust policies (Rob Van Horn, Univ. of Rhode Island), development economics (Dieter Plehwe), and business conservatism and philanthropy (Kimberly Phillips-Fein, New York Univ.).

Part three of the book, entitled “Mobilization for action”, is concerned with the international spread of neoliberalism. Three generations of neoliberals are considered. There are chapters on the influence of Milton Friedman and other neoliberals in Pinochet’s Chile (Karin Fischer, Univ. of Vienna), on the new international economic order based on economic stabilization, privatization and liberalization (Jennifer Bair, of University of Colorado) and on the urban property rights project and the anti-poverty policy program in Peru (Timothy Mitchell, of Columbia Univ.).

The book is completed by a long postface by Philip Mirowski centered on the question of defining neoliberalism and critical of some Wikipedia web-articles on the subject. Mirowski is not

at all indulgent in describing neoliberalism. In a sarcastic mood, he says that for neoliberals “any problem, economic or otherwise, has a market solution, given sufficient ingenuity: pollution is abated by the trading of emission permits; inadequate public education is rectified by vouchers; auctions can adequately structure communication channels; poverty-stricken sick people lacking access to healthcare can be incentivized to serve as guinea pigs for clinical drug trials; financial crisis can be rectified by the government auctioning of ‘toxic assets’; McCarthyism was thwarted by competition between employers; terrorism by disgruntled disenfranchised foreigners can be offset by a ‘futures market in terrorist acts’ ” (pp. 439-40). And he adds that “perhaps the greatest incongruity of the neoliberal thought collective has been that the avatars of freedom drew one of their most telling innovations [*the necessity of a strong state*] from the critique of liberalism that had been mounted by totalitarian German and Italian political thinkers from the interwar period” (p. 443). He mentions Carl Schmitt, the Nazi jurist and ideologist who supported the totalitarian state and was a major critic of parliamentary democracy.

4. Yet, in spite of a declining degree of confidence in a self-equilibrating capacity of market forces, the neoliberal economic and political practice is still worldwide present. But deregulation is no longer very popular. New rules are imposed. Easy consumer credit and excessive issues of financial liabilities are recognized directly responsible for the crisis.

As a matter of fact, neoliberal policies failed to encourage investment, to strengthen productivity and to promote diversification. They did not induce higher economic growth and increased financial stability. They did not succeed in reducing poverty, exploitation and inequalities, in relieving public debt, in lowering the volatility of international capital flows and in sustaining the environment. But, almost unbelievably, they were able to survive these misadventures. How? They simply changed their name, from conservatives to libertarians, which sounds much better, and carried on. Merchant banks, insurance companies and big corporations with financial difficulties asked for state support during the global crisis. And they got it. Bailouts became the norm, bankruptcies were reduced to sporadic exceptions.

Let us consider libertarianism somewhat closer. It is a radically individualist doctrine based on the axioms of full self-ownership, non-aggression and natural law. We may distinguish strong libertarianism from weak libertarianism. Strong libertarianism is an ideological movement which puts economic freedom (Milton Friedman’s “freedom to choose”) and the defense of transferable personal property rights (Ronald Coase) above political democracy, social justice and environmental sustainability. It is opposed to the communitarian visions of Alasdair MacIntyre, Charles Taylor and Amitai Etzioni. For strong libertarians there is no such thing as society. There are only individual and their families.

Strong libertarianism implies complete personal freedom and has been frequently denounced as ‘anarchy for reach people’. But freedom for whom? For the happy few who have sufficient wealth to enter the market profitably? And at whose expense? That of the remaining part of the population?

Weak libertarianism may appear somewhat more acceptable, being similar to a moderate type of liberalism with rules, or to a slightly conservative political and economic doctrine – a non-totalitarian, but perhaps a latently authoritarian one – which takes private property and individual freedom as inseparable key values, opposes collectivism and socialism and refuses to recognize that the existence of a trade-off between efficiency and equity is a major cause of social injustice. This type of neoliberal conservatism does not assume systemic governmental failure and does not call for

a complete retreat of the state. It admits a limited amount of state intervention in the economy, under the rule of law of a constitutional democracy, and wants to conserve the *status quo*. That is a market economy based on private ownership and heritable property. And ultimately aimed at the search for profit. A state of things which more progressive liberals would like to change.

5. A variant of strong libertarianism is anarcho-capitalism, a small individualist and utilitarian movement dominated by academics (Murray Rothbard, David Friedman, Ayn Rand, Walter Block), also known as ‘right-libertarianism’, ‘anarcho-liberalism’, or ‘market anarchism’. Its partisans think that each person has the right to live his own life as he or she likes, provided that equal rights of other people are respected. According to these libertarians, you are free to be different and you are not obliged to work, you can smoke as you want and you are allowed to choose whether and how to die.

Anarcho-capitalists are strange individuals. They should be placed at the extreme right of the political spectrum of liberalism as concerns economic and social issues, such as taxation and immigration, and at the extreme left on moral issues, personal liberty and civil rights. As market fundamentalists, they deny any economic power to the state, which they consider a useless and harmful authoritarian institution. Something similar to the Leviathan.

A left-wing type of anarcho-libertarianism, present in some fringe groups of the labour movement, proposes to create a society without government, authoritarian institutions, social hierarchies, private property rights, laws, taxes and money. Which is, of course, pure fantasy. A less fundamentalist and less naïve form of libertarianism is the minimal state anarcho-libertarianism, or ‘minarchism’, proposed by the philosopher Robert Nozick, the author of *Anarchy, State and Utopia*. It opposes all government interventions, except those made for the internal and external defence and for the administration of justice, and maintains that the pursuit of individual interests should not be limited by social boundaries.

Another instance of non-fundamentalist neoliberalism is provided by ‘Public Choice’, a political theory based on methodological individualism and rational choice perspective in a context characterized by the presence of asymmetrical information and transaction costs. Formulated by James Buchanan and Gordon Tullock, at the Chicago School, in the 1960s, public choice is not exempt of deadlock problems (the ‘free rider’ case, the ‘prisoner’s dilemma’) and to be sustainable would require a highly responsible citizen behaviour, difficult to imagine in the absence of a complex system of state incentives and sanctions.

6. As a political philosophy, neoliberalism does not indicate a single intellectual position, but a variegated one, which provides the answer of the business world to the spread of Keynesian theories and policies. It supports profit searching and rent seeking activities in the market, with little regulatory intervention by the government, and backs the idea that the private sector should take care of the provision of public goods. It thus contrasts with the communitarian sense of civic solidarity, social justice and common responsibility and may accentuate social inequalities.

Neoliberals regard the market as an efficient mechanism of allocation of goods and services and consider economic freedom the necessary premise of any other form of liberty. They recognize that human beings have unequal talents but deserve equal dignity and rights. They are therefore against any discrimination based on race, religion, gender or sexual orientation. But for them freedom is a fact of nature. As life, it is a fundamental natural right, which the state should protect; not

something which has to be earned, as property, or democracy. And they think that the presence of the state is needed to achieve an effective protection of individual property rights. Thus, paradoxically, neoliberals, who do not like the state, cannot do without it.

From an ethical point of view, the trouble with neoliberalism is a threefold one. First, neoliberals accept as a natural condition a considerable disparity of individual starting points, not only as regards personal talents, which is practically an unavoidable life condition, but also as concerns the initial distribution of inherited wealth. Second, neoliberals welcome inequality of wealth and incomes as a way to achieve better opportunities and greater prosperity for all. They consider equality of wealth a wholly illusory ideal in a world characterized by biological inequalities. And they believe that a higher degree of inequality would promote a faster growth of the economy and would ultimately benefit rich and poor people. There is no statistical evidence of this. The usual effects of neoliberal policies are a rise in incomes of large corporations and wealthy people, an increase of economic and social inequalities, greater instability of the economy and a worsening of the global environment. Third, neoliberals put emphasis on private property, hereditariness and free contracts. Against social ownership they argue that what is property of everyone is responsibility of no one.

To construct a Darwinian world of economic competition and relentless natural selection, rather than a balanced and stable social order of solidarity, neoliberals advocate a struggle of all against all, where the stronger would win and the weaker would disappear. This is not, in my opinion, a world of more society and less state, but one of less society and less state, with more economic exploitation and financial speculation.

7. Welfare state liberals and liberal democrats are for a different kind of liberalism, one with rules and controls. They should therefore be distinguished from conservative neoliberals. We shall call them new liberals, or progressive liberals, rather than neoliberals. And we shall include in this taxonomic category both the German social market liberals and the British New Labour of Tony Blair and Anthony Giddens, which are sometimes described as ‘neoliberalism with a human face’, for their support to a ‘third way’ policy of social reforms in a capitalistic system.

But how much liberal and progressive are really they? Not so much. They wish to draw a separating wealth line in society, above which there would be free competition for economic success in the market and below which every person could be allowed by the community to live and work at a guaranteed minimum wage. Thus they are in a somewhat ambiguous position, being liberals at the top level of the social scale and interventionists at the bottom.

In this respect, they are not true liberals. They are so similar to social-democrats that it is indeed difficult to ascertain whether democratic liberalism and new labour are different in kind, rather than in degree, in their attitude towards public goods and welfare programs for the working class. Could we denote them as liberal socialists? I doubt. Liberal socialism is a philosophy of solidarity nature, of individual liberty and personal equality, one which seeks to end privilege and recognizes our duties towards other people. It thus differs from the pursuit of personal profit and financial success in a free market context.

For those readers who wish to deepen their knowledge of contemporary liberalism, let us suggest the further reading of four little known but important books, written by Pierre Bourdieu, *Contre-feux: Propos pour servir à la résistance contre l'invasion néo-libérale*, Éditions Liber, Paris, 1998; Noam Chomsky, *Profit over People. Neoliberalism and Global Order*, Seven Stories Press, New

York, 1999; Alain Touraine, *Beyond Neoliberalism*, Polity Press, Cambridge, 2001; Bernhard Walpen, *Die offenen Feinde und ihre Gesellschaft. Eine hegemonietheoretische Studie zur Mont Pèlerin Society*, VSA-Verlag, Hamburg, 2004 (summarized in English in *The Plan to End Planning: A Short History of Neoliberalism*, International Center for Advanced Studies, New York University, 2005).