

# A SHORT HISTORY OF NEO-LIBERALISM: TWENTY YEARS OF ELITE ECONOMICS AND EMERGING OPPORTUNITIES FOR STRUCTURAL CHANGE

SUSAN GEORGE

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The Conference organizers have asked me for a brief history of neo-liberalism, which they title "Twenty Years of Elite Economics". I'm sorry to tell you that in order to make any sense, I have to start even further back, some 50 years ago, just after the end of World War II.

In 1945 or 1950, if you had seriously proposed any of the ideas and policies in today's standard neo-liberal toolkit, you would have been laughed off the stage at or sent off to the insane asylum. At least in the Western countries, at that time, everyone was a Keynesian, a social democrat or a social-Christian democrat or some shade of Marxist. The idea that the market should be allowed to make major social and political decisions; the idea that the State should voluntarily reduce its role in the economy, or that corporations should be given total freedom, that trade unions should be curbed and citizens given much less rather than more social protection--such ideas were utterly foreign to the spirit of the time. Even if someone actually agreed with these ideas, he or she would have hesitated to take such a position in public and would have had a hard time finding an audience.

However incredible it may sound today, particularly to the younger members of the audience, the IMF and the World Bank were seen as progressive institutions. They were sometimes called Keynes's twins because they were the brain-children of Keynes and Harry Dexter White, one of Franklin Roosevelt's closest advisors. When these institutions were created at Bretton Woods in 1944, their mandate was to help prevent future conflicts by lending for reconstruction and development and by smoothing out temporary balance of payments problems. They had no control over individual government's economic decisions nor did their mandate include a license to intervene in national policy.

In the Western nations, the Welfare State and the New Deal had got underway in the 1930s but their spread had been interrupted by the war. The first order of business in the post-war world was to put them back in place. The other major item on the agenda was to get world trade moving--this was accomplished through the Marshall Plan which established Europe once again as the major trading partner for the US, the most powerful economy in the world. And it was at this time that the strong winds of desalinization also began to blow, whether freedom was obtained by grant as in India or through armed struggle as in Kenya, Vietnam and other nations.

On the whole, the world had signed on for an extremely progressive agenda. The great scholar Karl Polanyi published his masterwork, *The Great Transformation* in 1944, a fierce critique of 19th century industrial, market-based society. Over 50 years ago Polanyi made this amazingly prophetic and modern statement: "To allow the market mechanism to be sole director of the fate of human beings and their natural environment...would result in the demolition of society" [p.73]. However, Polanyi was convinced that such a demolition could no longer happen in the post-war world because, as he said [p.251], "Within the nations we are witnessing a development under which the economic system ceases to lay down the law to society and the primacy of society over that system is secured".

Alas, Polanyi's optimism was misplaced--the whole point of neo-liberalism is that the market mechanism should be allowed to direct the fate of human beings. The economy should dictate its rules to society, not the other way around. And just as Polanyi foresaw, this doctrine is leading us directly towards the "demolition of society".

So what happened? Why have we reached this point half a century after the end of the Second World War? Or, as the organizers ask, "Why are we having this conference right now?" The short answer is "Because of the series of recent financial crises, especially in Asia". But this begs the question--the question they are really asking

is "How did neo-liberalism ever emerge from its ultra-minoritarian ghetto to become the dominant doctrine in the world today?" Why can the IMF and the Bank intervene at will and force countries to participate in the world economy on basically unfavorable terms. Why is the Welfare State under threat in all the countries where it was established? Why is the environment on the edge of collapse and why are there so many poor people in both the rich and the poor countries at a time when there has never existed such great wealth? Those are the questions that need to be answered from an historical perspective.

As I've argued in detail in the US quarterly journal *Dissent*, one explanation for this triumph of neo-liberalism and the economic, political, social and ecological disasters that go with it is that neo-liberals have bought and paid for their own vicious and regressive "Great Transformation". They have understood, as progressives have not, that ideas have consequences. Starting from a tiny embryo at the University of Chicago with the philosopher-economist Friedrich von Hayek and his students like Milton Friedman at its nucleus, the neo-liberals and their funders have created a huge international network of foundations, institutes, research centers, publications, scholars, writers and public relations hacks to develop, package and push their ideas and doctrine relentlessly.

They have built this highly efficient ideological cadre because they understand what the Italian Marxist thinker Antonio Gramsci was talking about when he developed the concept of cultural hegemony. If you can occupy peoples' heads, their hearts and their hands will follow. I do not have time to give you details here, but believe me, the ideological and promotional work of the right has been absolutely brilliant. They have spent hundreds of millions of dollars, but the result has been worth every penny to them because they have made neo-liberalism seem as if it were the natural and normal condition of humankind. No matter how many disasters of all kinds the neo-liberal system has visibly created, no matter what financial crises it may engender, no matter how many losers and outcasts it may create, it is still made to seem inevitable, like an act of God, the only possible economic and social order available to us.

Let me stress how important it is to understand that this vast neo-liberal experiment we are all being forced to live under has been created by people with a purpose. Once you grasp this, once you understand that neo-liberalism is not a force like gravity but a totally artificial construct, you can also understand that what some people have created, other people can change. But they cannot change it without recognising the importance of ideas. I'm all for grassroots projects, but I also warn that these will collapse if the overall ideological climate is hostile to their goals.

So, from a small, unpopular sect with virtually no influence, neo-liberalism has become the major world religion with its dogmatic doctrine, its priesthood, its law-giving institutions and perhaps most important of all, its hell for heathen and sinners who dare to contest the revealed truth. Oskar Lafontaine, the ex-German Finance Minister who the *Financial Times* called an "unreconstructed Keynesian" has just been consigned to that hell because he dared to propose higher taxes on corporations and tax cuts for ordinary and less well-off families.

Having set the ideological stage and the context, now let me fast-forward so that we are back in the twenty year time frame. That means 1979, the year Margaret Thatcher came to power and undertook the neo-liberal revolution in Britain. The Iron Lady was herself a disciple of Friedrich von Hayek, she was a social Darwinist and had no qualms about expressing her convictions. She was well known for justifying her programme with the single word TINA, short for There Is No Alternative. The central value of Thatcher's doctrine and of neo-liberalism itself is the notion of competition--competition between nations, regions, firms and of course between individuals. Competition is central because it separates the sheep from the goats, the men from the boys, the fit from the unfit. It is supposed to allocate all resources, whether physical, natural, human or financial with the greatest possible efficiency.

In sharp contrast, the great Chinese philosopher Lao Tzu ended his *Tao-te Ching* with these words: "Above all, do not compete". The only actors in the neo-liberal world who seem to have taken his advice are the largest actors of all, the Transnational Corporations. The principle of competition scarcely applies to them; they prefer to practise what we could call Alliance Capitalism. It is no accident that, depending on the year, two-thirds to three-quarters of all the money labeled "Foreign Direct Investment" is not devoted to new, job-creating investment but to Mergers and Acquisitions which almost invariably result in job losses.

Because competition is always a virtue, its results cannot be bad. For the neo-liberal, the market is so wise and so good that like God, the Invisible Hand can bring good out of apparent evil. Thus Thatcher once said in a

speech, "It is our job to glory in inequality and see that talents and abilities are given vent and expression for the benefit of us all." In other words, don't worry about those who might be left behind in the competitive struggle. People are unequal by nature, but this is good because the contributions of the well-born, the best-educated, the toughest, will eventually benefit everyone. Nothing in particular is owed to the weak, the poorly educated, what happens to them is their own fault, never the fault of society. If the competitive system is "given vent" as Margaret says, society will be the better for it. Unfortunately, the history of the past twenty years teaches us that exactly the opposite is the case.

In pre-Thatcher Britain, about one person in ten was classed as living below the poverty line, not a brilliant result but honourable as nations go and a lot better than in the pre-War period. Now one person in four, and one child in three is officially poor. This is the meaning of survival of the fittest: people who cannot heat their houses in winter, who must put a coin in the meter before they can have electricity or water, who do not own a warm waterproof coat, etc. I am taking these examples from the 1996 report of the British Child Poverty Action Group. I will illustrate the result of the Thatcher-Major "tax reforms" with a single example: During the 1980s, 1 percent of taxpayers received 29 percent of all the tax reduction benefits, such that a single person earning half the average salary found his or her taxes had gone up by 7 percent, whereas a single person earning 10 times the average salary got a reduction of 21%.

Another implication of competition as the central value of neo-liberalism is that the public sector must be brutally downsized because it does not and cannot obey the basic law of competing for profits or for market share. Privatisation is one of the major economic transformations of the past twenty years. The trend began in Britain and has spread throughout the world.

Let me start by asking why capitalist countries, particularly in Europe, had public services to begin with, and why many still do. In reality, nearly all public services constitute what economists call "natural monopolies". A natural monopoly exists when the minimum size to guarantee maximum economic efficiency is equal to the actual size of the market. In other words, a company has to be a certain size to realise economies of scale and thus provide the best possible service at the lowest possible cost to the consumer. Public services also require very large investment outlays at the beginning--like railroad tracks or power grids--which does not encourage competition either. That's why public monopolies were the obvious optimum solution. But neo-liberals define anything public as ipso facto "inefficient".

So what happens when a natural monopoly is privatised? Quite normally and naturally, the new capitalist owners tend to impose monopoly prices on the public, while richly remunerating themselves. Classical economists call this outcome "structural market failure" because prices are higher than they ought to be and service to the consumer is not necessarily good. In order to prevent structural market failures, up to the mid-1980s, the capitalist countries of Europe almost universally entrusted the post office, telecomms, electricity, gas, railways, metros, air transport and usually other services like water, rubbish collection, etc. to state-owned monopolies. The USA is the big exception, perhaps because it is too huge geographically to favour natural monopolies.

In any event, Margaret Thatcher set out to change all that. As an added bonus, she could also use privatisation to break the power of the trade unions. By destroying the public sector where unions were strongest, she was able to weaken them drastically. Thus between 1979 and 1994, the number of jobs in the public sector in Britain was reduced from over 7 million to 5 million, a drop of 29 percent. Virtually all the jobs eliminated were unionised jobs. Since private sector employment was stagnant during those fifteen years, the overall reduction in the number of British jobs came to 1.7 million, a drop of 7% compared to 1979. To neo-liberals, fewer workers is always better than more because workers impinge on shareholder value.

As for other effects of privatisation, they were predictable and predicted. The managers of the newly privatised enterprises, often exactly the same people as before, doubled or tripled their own salaries. The government used taxpayer money to wipe out debts and recapitalise firms before putting them on the market--for example, the water authority got 5 billion pounds of debt relief plus 1.6 billion pounds called the "green dowry" to make the bride more attractive to prospective buyers. A lot of Public Relations fuss was made about how small stockholders would have a stake in these companies--and in fact 9 million Brits did buy shares--but half of them invested less than a thousand pounds and most of them sold their shares rather quickly, as soon as they could cash in on the instant profits.

From the results, one can easily see that the whole point of privatisation is neither economic efficiency or improved services to the consumer but simply to transfer wealth from the public purse--which could redistribute it to even out social inequalities--to private hands. In Britain and elsewhere, the overwhelming majority of privatised company shares are now in the hands of financial institutions and very large investors. The employees of British Telecom bought only 1 percent of the shares, those of British Aerospace 1.3 percent, etc. Prior to Ms Thatcher's onslaught, a lot of the public sector in Britain was profitable. Consequently, in 1984, public companies contributed over 7 billion pounds to the treasury. All that money is now going to private shareholders. Service in the privatised industries is now often disastrous--the Financial Times reported an invasion of rats in the Yorkshire Water system and anyone who has survived taking Thames trains in Britain deserves a medal.

Exactly the same mechanisms have been at work throughout the world. In Britain, the Adam Smith Institute was the intellectual partner for creating the privatisation ideology. USAID and the World Bank have also used Adam Smith experts and have pushed the privatisation doctrine in the South. By 1991 the Bank had already made 114 loans to speed the process, and every year its Global Development Finance report lists hundreds of privatisations carried out in the Bank's borrowing countries.

I submit that we should stop talking about privatisation and use words that tell the truth: we are talking about alienation and surrender of the product of decades of work by thousands of people to a tiny minority of large investors. This is one of the greatest hold-ups of ours or any generation.

Another structural feature of neo-liberalism consists in remunerating capital to the detriment of labour and thus moving wealth from the bottom of society to the top. If you are, roughly, in the top 20 percent of the income scale, you are likely to gain something from neo-liberalism and the higher you are up the ladder, the more you gain. Conversely, the bottom 80 percent all lose and the lower they are to begin with, the more they lose proportionally.

Lest you thought I had forgotten Ronald Reagan, let me illustrate this point with the observations of Kevin Phillips, a Republican analyst and former aid to President Nixon, who published a book in 1990 called *The Politics of Rich and Poor*. He charted the way Reagan's neo-liberal doctrine and policies had changed American income distribution between 1977 and 1988. These policies were largely elaborated by the conservative Heritage Foundation, the principle think-tank of the Reagan administration and still an important force in American politics. Over the decade of the 1980s, the top 10 percent of American families increased their average family income by 16 percent, the top 5 percent increased theirs by 23 percent, but the extremely lucky top 1 percent of American families could thank Reagan for a 50 percent increase. Their revenues went from an affluent \$270,000 to a heady \$405,000. As for poorer Americans, the bottom 80 percent all lost something; true to the rule, the lower they were on the scale, the more they lost. The bottom 10 percent of Americans reached the nadir: according to Phillip's figures, they lost 15% of their already meagre incomes: from an already rock-bottom average of \$4,113 annually, they dropped to an inhuman \$3,504. In 1977, the top 1 percent of American families had average incomes 65 times as great as those of the bottom 10 percent. A decade later, the top 1 percent was 115 times as well off as the bottom decile.

America is one of the most unequal societies on earth, but virtually all countries have seen inequalities increase over the past twenty years because of neo-liberal policies. UNCTAD published some damning evidence to this effect in its 1997 Trade and Development Report based on some 2600 separate studies of income inequalities, impoverishment and the hollowing out of the middle classes. The UNCTAD team documents these trends in dozens of widely differing societies, including China, Russia and the other former Socialist countries.

There is nothing mysterious about this trend towards greater inequality. Policies are specifically designed to give the already rich more disposable income, particularly through tax cuts and by pushing down wages. The theory and ideological justification for such measures is that higher incomes for the rich and higher profits will lead to more investment, better allocation of resources and therefore more jobs and welfare for everyone. In reality, as was perfectly predictable, moving money up the economic ladder has led to stock market bubbles, untold paper wealth for the few, and the kind of financial crises we shall be hearing a lot about in the course of this conference. If income is redistributed towards the bottom 80 percent of society, it will be used for consumption and consequently benefit employment. If wealth is redistributed towards the top, where people already have most of the things they need, it will go not into the local or national economy but to international stockmarkets.

As you are all aware, the same policies have been carried out throughout the South and East under the guise of structural adjustment, which is merely another name for neo-liberalism. I've used Thatcher and Reagan to illustrate the policies at the national level. At the international level, neo-liberals have concentrated all their efforts on three fundamental points:

- free trade in goods and services
- free circulation of capital
- freedom of investment

Over the past twenty years, the IMF has been strengthened enormously. Thanks to the debt crisis and the mechanism of conditionality, it has moved from balance of payments support to being quasi-universal dictator of so-called "sound" economic policies, meaning of course neo-liberal ones. The World Trade Organisation was finally put in place in January 1995 after long and laborious negotiations, often rammed through parliaments which had little idea what they were ratifying. Thankfully, the most recent effort to make binding and universal neo-liberal rules, the Multilateral Agreement on Investment, has failed, at least temporarily. It would have given all rights to corporations, all obligations to governments and no rights at all to citizens.

The common denominator of these institutions is their lack of transparency and democratic accountability. This is the essence of neo-liberalism. It claims that the economy should dictate its rules to society, not the other way around. Democracy is an encumbrance, neo-liberalism is designed for winners, not for voters who, necessarily encompass the categories of both winners and losers.

I'd like to conclude by asking you to take very seriously indeed the neo-liberal definition of the loser, to whom nothing in particular is owed. Anyone can be ejected from the system at any time--because of illness, age, pregnancy, perceived failure, or simply because economic circumstances and the relentless transfer of wealth from top to bottom demand it. Shareholder value is all. Recently the International Herald Tribune reported that foreign investors are "snapping up" Thai and Korean companies and Banks. Not surprisingly, these purchases are expected to result in "heavy layoffs".

In other words, the results of years of work by thousands of Thais and Koreans is being transferred into foreign corporate hands. Many of those who laboured to create that wealth have already been, or soon will be left on the pavement. Under the principles of competition and maximising shareholder value, such behaviour is seen not as criminally unjust but as normal and indeed virtuous.

I submit that neo-liberalism has changed the fundamental nature of politics. Politics used to be primarily about who ruled whom and who got what share of the pie. Aspects of both these central questions remain, of course, but the great new central question of politics is, in my view, "Who has a right to live and who does not". Radical exclusion is now the order of the day, I mean this deadly seriously.

I've given you rather a lot of bad news because the history of the past 20 years is full of it. But I don't want to end on such a depressing and pessimistic note. A lot is already happening to counter these life-threatening trends and there is enormous scope for further action.

This conference is going to help define much of that action which I believe must include an ideological offensive. It's time we set the agenda instead of letting the Masters of the Universe set it at Davos. I hope funders may also understand that they should not be funding just projects but also ideas. We can't count on the neo-liberals to do it, so we need to design workable and equitable international taxation systems, including a Tobin Tax on all monetary and financial market transactions and taxes on Transnational Corporation sales on a pro-rata basis. I expect we will go into detail on such questions in the workshops here. The proceeds of an international tax system should go to closing the North-South gap and to redistribution to all the people who have been robbed over the past twenty years.

Let me repeat what I said earlier: neo-liberalism is not the natural human condition, it is not supernatural, it can be challenged and replaced because its own failures will require this. We have to be ready with replacement policies which restore power to communities and democratic States while working to institute democracy, the rule of law

and fair distribution at the international level. Business and the market have their place, but this place cannot occupy the entire sphere of human existence.

Further good news is that there is plenty of money sloshing around out there and a tiny fraction, a ridiculous, infinitesimal proportion of it would be enough to provide a decent life to every person on earth, to supply universal health and education, to clean up the environment and prevent further destruction to the planet, to close the North-South gap--at least according to the UNDP which calls for a paltry \$40 billion a year. That, frankly, is peanuts.

Finally, please remember that neo-liberalism may be insatiable but it is not invulnerable. A coalition of international activists only yesterday obliged them to abandon, at least temporarily, their project to liberalise all investment through the MAI. The surprise victory of its opponents infuriated the supporters of corporate rule and demonstrates that well organised network guerillas can win battles. Now we have to regroup our forces and keep at them so that they cannot transfer the MAI to the WTO.

Look at it this way. We have the numbers on our side, because there are far more losers than winners in the neo-liberal game. We have the ideas, whereas theirs are finally coming into question because of repeated crisis. What we lack, so far, is the organisation and the unity which in this age of advanced technology we can overcome. The threat is clearly transnational so the response must also be transnational. Solidarity no longer means aid, or not just aid, but finding the hidden synergies in each other's struggles so that our numerical force and the power of our ideas become overwhelming. I'm convinced this conference will contribute mightily to this goal and I thank you all for your kind attention.