The Neoliberal Policy Paradigm and the Great Recession

Summary: The paper examines the relationship between neoliberal policies and the Great Recession with a focus on the persistence of the policy paradigm in spite of overwhelming evidence of its role in creating the crisis. These economic problems are only the latest that have arisen in the wake of the three long decade experiment with these policy packages. The paper investigates the ideological, methodological, historical, theoretical, political and economic interests underlying the perpetuation of neoliberalism.

Key words: Neoliberalism, Great recession, IMF, Africa, European community.

JEL: B4, E6, F34.

We live in the most extraordinary times. Eric Cantor, the House majority leader talks of reversing the crisis “by pursuing a steady repeal of job-destroying regulations” (Eric Cantor 2011) rather than the reversing the real cause, job-destroying deregulation. Chancellor Merkel is quoted as saying that “fiscal austerity is the only right way to deal with the Euro debt crisis” (Stock Market Today 2012) rather than reversing the fiscal austerity that has pushed most European countries into double digit unemployment.

The global economy continues to falter in the wake of the three decade experiment with neoliberal policies. Yet, the very cause of this crisis, neoliberalism is put forward as its solution not only by one of the two main parties in the US but by the European Union. Moreover, the International Monetary Fund (IMF) continues to push these policy packages as part of the core conditionality associated with crisis related loans. The supporters of neoliberalism sound a bit like Alice in Alice in Wonderland: “If I had a world of my own, everything would be nonsense. Nothing would be what it is because everything would be what it isn't. And contrary-wise; what it is it wouldn't be, and what it wouldn't be, it would. You see?”.

This paper is aimed at generating a conversation about the ideological, methodological, theoretical, political and economic interests behind the perpetuation of neoliberalism. The focus is less on the linkage between deregulation and other neoliberal policies and the Great Recession which is well documented and more on explaining the institutionalization of the neoliberal policy paradigm and its consequences.
1. Neoliberalism and the Heterogeneity of Its Definitions

Neoliberalism has multiple meanings and definitions. What is most interesting is how many different ways it is conceptually represented. David Harvey (2005) defines it as “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.” To Edward Fullbrook (2006), neoliberalism is an ideology supported by neoclassical economic theory. To John Williamson (2008), the author of the Washington consensus, neoliberalism is nothing more than “the doctrines espoused by the Mount Pelerin Society”, the organization founded in 1947 by Hayek and his supporters. MacEwan also refers to it as a doctrine “where economic growth is maximized and where movement of goods, services and capital not labor are unimpeded by government regulation” (Arthur MacEwan 2005).

Others refer to neoliberalism as an “assertion that the market is the core institution of modern capitalist societies and international politics and policy making are (and should be) primarily concerned with making markets work well” (Susanne Soederberg, Georg Menz, and Philip G. Cerny 2005). Yet there are still more definitions. “Neoliberalism is a philosophy in which the existence and operation of a market are valued in themselves, separately from any previous relationship with the production of goods and services, and without any attempt to justify them in terms of their effect on the production of goods and services; and where the operation of a market or market-like structure is seen as an ethic in itself, capable of acting as a guide for all human action, and substituting for all previously existing ethical beliefs” (Paul Treanor 2005).

The referencing of neoliberalism as an ideology, philosophy, doctrine, assertion, and a theory is quite extraordinary. All these have dramatically different inferences. For example, an assertion is seen as a statement or declaration, often without support or reason. Contrast that to the notion of philosophy which suggests the study of the fundamental nature of knowledge, reality, and existence. One can think of few phenomena with such a powerful evocation of heterogenic responses from such a wide variety of academic writers. Conceptually it is a strong testimony to how much neoliberalism has been globally institutionalized in the Veblenian sense of habits of thought common to the generality of men and women.

However despite the differences there is a common recognition of an affiliated policy paradigm which assumes growth and development will arise from the macrostabilization, liberalization and privatization of economies. Macrostabilization focuses on reducing trade deficits, constraining monetary growth and cutting government spending and is aimed at reducing imbalances in the current account and government budgets. This has frequently meant pro-cyclical policies or enforcing austerity on governments when economies are in economic downturns. Liberalization retracts state intervention in markets in order to reverse the distortions to the price signals consumers and private producers need to make “optimal choices”. In addition to reducing government regulations, liberalization often means “freeing up” prices by removing government controls or subsidies on output prices like food for consumers and input prices like fertiliser to farmers. User fees or charges to individuals for util-
izing public goods like education and healthcare are introduced to promote “efficiency” in their allocation while raising revenues for governments. Privatization focuses on selling state assets to the private sector in the belief that private property ownership would lead to higher levels of efficiency, investment and growth. Each of these policy positions arises from distinct neo-classical economic theories (Howard Stein 2008).

2. Neoliberalism and Its Economic and Social Impact

The role of deregulation and related neoliberal policies as a both a source of massive financialization of the economy and cause of the Great Recession is widely recognized in the literature (David M. Kotz 2009; Bill Lucarelli 2009; Joseph Stiglitz 2010; William Tabb 2012). Some authors aptly call it the “crisis of neoliberal capitalism” (Kotz 2010).

This is only the latest example of the fallout that has accompanied the neoliberal experiment, though clearly a more profound one (Kosta Josifidis, Alpar Lošonc, and Novica Supić 2010; Timur Han Gur, Naci Canpolat, and Huseyin Ozel 2011). The past thirty years have witnessed an unprecedented period of economic instability, stagnation and growing inequality. Despite the takeoff in China and other Asian countries (areas that arguably largely escaped neoliberalism) global growth has steadily declined averaging 3.8% in the 70s, 3.3% in the 80s, 3.1% in the 90s and most recently between 2000-10 only 2.8% (United Nations Conference on Trade and Development (UNCTAD) 2011). Income inequality has also risen.

In a total of 27 Organisation for Economic Co-operation and Development (OECD) countries from the mid-80s to the latter part of the first decade of the new millennium, the income of the upper quintile grew by 1.9% per year compared to only 1.3% for the lowest quintile. In 20 of 22 countries, where data was available the gini rose or showed no improvement. The same study also provides data on seven emerging countries covering a more recent period from the early 90s to the late 2000s. Five indicated a clear deterioration in the gini coefficient. South Africa had the highest gini at around 0.7 (OECD 2011). The South African trend is in line with other countries in Africa, an area that was heavily influenced by decades of neoliberalism through structural adjustment lending. In a sample of 19 sub-Saharan Africa countries, the gini went from a mean of 43.6 to 48.9 over the adjustment period (Stein 2011).

There are also strong indications that instability has risen. The lucrative nature of managing the riches of the world’s wealthy has led to an explosion of hedge funds. In 1995, there were 2,800 funds managing $2.8 billion. In 2006 the number was up to 8,500 with $1.4 trillion in assets (Angel Ubide 2006; IMF 2007). Deregulation has attracted hedge fund money into new markets.

In 2000, the Commodities Future Modernization Act removed restrictions on speculation in commodities. This deregulation has increased speculation by hedge funds and with it the financialization of commodities including food. Commodity
futures and options went from 10 million contracts at a value of $1 trillion in 2003 to 70 million contracts valued at $14 trillion in 2010 (UNCTAD 2011). In 2011, for example, 61% of the wheat futures market was controlled by speculators compared to only 12% in the mid-90s. Overall, there was an estimated doubling of speculative money entering into food between 2006 and 2011 (Murray Worthy 2011). By 2011, food prices were 2 ½ times the level of 1999 threatening the food security of millions of the world’s poorest (Index Mundi 2012\(^2\)). In 56 developing countries food prices rose by an average of 56% between 2007 and 2010 (Worthy 2011).

The post 1980 period has also seen a significant rise in banking crisis following episodes of financial liberalization. The figure below from Gerard Caprio and Deniela Klingebiel (2003) shows a precipitous growth in the number of financial crises following the widespread imposition of neoliberalism in the post-1980 period.

![Graph showing episodes of financial crises](image)

**Figure 1** Episodes of Financial Crises

We can see that the numbers exploded from an average of less than five in the latter half of the 1970s to more than 50 in 1995, a period of heavy financial liberalization. Aslıt Demirgüç-Kunt and Enrica Detragiache (1998) examine financial crises in 53 countries between the 1980 and 1995 and find that it is highly correlated with financial liberalization. In their sample, 77% of the banking crises were linked to various forms of financial liberalization. Cleaning up these crises has proven extremely costly. Patric Honohan and Klingebiel (2000) provide information on 27 countries with financial crisis between 1977 and 1997 and show a fiscal cost of between 4% and almost 50% of the GDP.

These figures do not include the opportunity costs arising from foregone economic growth and the higher unemployment associated with these crises. In the context of the current crisis there was a more than 6% reversal in world economic growth between 2007 and 2009. If global growth in 2008 and 2009 had expanded at

the average of 2004 to 2007, the world would have had $607 more per person in 2009 or a total opportunity cost of around $4.1 trillion dollars (calculated from UNCTAD 2011).

Given the poor statistical base for determining employment figures worldwide, it is difficult to assess the human implications in terms of people’s employment and livelihoods. However, the statistics from the European community with its embedded neoliberal policies are staggering. In May, 2012 there was an estimated 24.9 million unemployed in 27 EU countries with an unemployment rate of 10.3% up from 16 million people and a 6.7% rate in the first quarter of 2008. The situation in the 17 Eurozone countries however, where IMF and European conditionality on loans have forced countries into severe internal devaluations is far worse. The unemployment rate hit 11.1% in May 2012 up from 7.6% in 2007. The number of unemployed jumped to 17.6 million in May, 2012 from 11.8 million in 2007.

However, in some European countries the situation is more grim with the ranks of the unemployed tripling in Ireland, Estonia and Latvia, Lithuania in 2010-11 and doubling or nearly doubling in places like Spain, Denmark, Cyprus, Portugal, Greece and the UK compared to the pre-crisis period (European Commission 2012). Many of these countries have adopted either IMF or IMF type programs with their emphasis on neoliberal pro-cyclical policies (more on this below). This is not surprising. A survey of studies of IMF programs indicate that they increase unemployment, lower economic growth and poverty rates, exacerbate income equality and reduce social services (Brian F. Crisp and Michael J. Kelly 1999; Gopal Garuda 2000; Adam Przeworski and James R. Vreeland 2000; Barbara Stallings and Wilson Peres 2000; Robert Barro and Jong-Wha Lee 2002; Vreeland 2003; Michael J. Kurtz 2004; Alex Dreher 2006).

After the start of the crisis, the Fund argued they would shift from their normal position and support an increase in fiscal expenditures to deal with the collapse. This is quite explicit in a now widely quoted IMF paper by Antonio Spilimbergo et al. (2008).

They argue that the economic downturn was driven both by a financial crisis and the collapse in aggregate demand. They indicate the usual option for addressing aggregate demand through devaluations, which is to stimulate exports through monetary policy, was not available. The former because it is a global phenomenon and will only lead to competitive devaluations and the latter because it has already been fully utilized in many countries or because the financial sectors have become too dysfunctional for it to work. They argue “in these circumstances, the Managing Director of the IMF has called for a sizable fiscal response at the global level…” (Spilimbergo et al. 2008).

However, studies have contested this. Mark Weisbrot et al. (2009) examine 41 IMF accords signed in the wake of the economic downturn and find only five with any evidence of expansionary fiscal or monetary policy. However, a closer reading of the IMF agreements indicates that even this interpretation can be considered generous (Stein 2010). Evidence is that the Fund is still overwhelmingly procyclical.

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How and why do these policies persist in view of their dismal record? This will be the focus of the remainder of the paper.

3. Neoliberalism and Its Continuities

To understand the hegemonic influence of the neoliberal policy paradigm over more than three decades, one needs to analyze the forces behind its institutionalization and perpetuation. The commitment to the paradigm cannot be singularly reduced to ideology. The paradigm has been woven into the basic fabric of our society, polity and economy. It is in consonance with the core propositions of the economics that has come to dominate the mainstream of the economics profession. Neoliberal policies are not the only ones that can arise from neoclassical economics. However, there is a close homology between the imbued naturalism of neoclassical economic markets and the vision embedded in the neoliberal policy order.

There are five main constructs at the heart of neo-classical economics that also underlie neoliberalism: *homo-economicus*, methodological individualism, the acceptance of equilibrium as a natural state, rational deductivity, and axiomatic reasoning. First, at the heart of all the theories is *homo-economicus*, which posits a rationally calculating individual, who naturally seeks to maximize his or her welfare. This concept incorporates a mode of rationality, which is instrumental, where an actor makes choices that will best satisfy his/her utility in a manner which does not take into account the utility of others (e.g. completely abstracting from human beings as social actors).

This model relies entirely on the second core sub-component, methodological individualism. The starting point of decision-making is at the individual level, and the end point is the individual. In the economy, there are assumed to be two types of participants: consumers and producers. A consumer chooses bundles of goods, which maximize his or her utility; however, choices are subject to budget constraints. Firms (seen as simply groupings of rational individuals) make production choices, which simply means that they choose the efficient bundle of inputs and outputs that will maximize the firm’s profits. In this world, choices are simple because their future implications are understood; additionally, all technology types are readily available and information is costless. There is also perfect competition, which ensures that profits are zero, or that a firm only earns enough to cover its costs.

Still, what is missing in the analysis is the mechanism of producers and consumer interaction, which leads to choices which are welfare maximizing. Markets, in this context, are perceived as exchanges where goods and services are transferred from producers to consumers. Exchange in the neo-classical model arises spontaneously from the atomistic interaction of self-seeking individuals. Goods traded in every market are assumed to be homogenous so that prices provide the only information needed to make the decisions on production and purchasing. No individual has sufficient market power to affect the market price.

Finally, to ensure that equilibrium is reached in the economy as a whole, neoclassical theory posits the existence of a “Walrasian auctioneer” who gathers and processes information from all these markets so that all individual agents through a tatonnement, or groping process, can adjust their decisions to remove excess demand and supply from all markets. The result will be that Pareto Optimal conditions will be reached.
thereby maximizing the welfare of society. Pareto optimality occurs when no one will be able to be better off without making someone worse off.

Equilibrium arises in the sense that the market is clearing and optimal choices are made. Moreover, in this ideal world, unfettered markets normally will lead to indicators that reflect scarcity and choice. Decisions based on markets under these conditions will lead to efficient choices on what and how to produce that are indicative of the endowment of societal resources. Thus the outcome is consistent with the natural underlying conditions. In short, equilibrium is a natural state.

The final two sub-components of neo-classical theory relate to the manner in which the above assumptions are created; the thinking behind the models is rational deductive and axiomatic. It is rational deductive in the sense that the behavior of agents is predetermined by a set of rules which are deductively posited. Rational, predictable behavior is simply assumed to arise from a set of market signals. There is no argument for why this must be true; it is simply deduced. Axiomatically, consumers and private producers are presupposed to be utility and profit maximizers that rationally respond in an efficient manner, if the market signals are correct. However, states do not operate with the same constraints on human behaviour because they do not respond to market signals.

This vision of markets and states by neoclassical economics has become ubiquitous. The way that economic knowledge has been disseminated and reproduced for many decades has had a powerful affirming role for neoliberalism. If this is how markets operate, the public sector must be the source of any economic dislocation or crisis best addressed with neoliberal policy choices.

The ability to conflate neoclassical economics with the study of economies has delimited the domain of policy debate. Neoclassical economics has everywhere been able to detach itself from contextual relativity by generating ahistoricity. The teaching of history of economic thought and methodology once a staple of any undergraduate education (including my own) has been jettisoned from the curriculum for decades. Over time diversity has been lost as adherence to a core set of axioms and defined techniques demonstrated through publication in a few tightly controlled journals that has helped determine the process of hiring and promotion.

Economist today have become “paradigm warriers” seeking to establish their way of looking at the world as the only legitimate option (Fullbrook 2006). Much like the Catholic Church of the middle ages, those questioned the neoclassical ontology and epistemology are categorized as heterodox, today’s equivalent of heretical.

The classification allowed much of the profession and policy circles to largely ignore the prognostications of people like Dean Baker concerning the relationship between financial deregulation and our current economic crisis. In an interview (dated Jan 9, 2009) with the Associated Press’s Deb Reichmann, Vice President Cheney repeatedly insisted that no one anticipated the looming U.S. financial crisis. “I don’t think anybody saw it coming”, he said (quoted in Economic Predictions 2012).

Among the mainstream economists financial deregulation was being hailed as the great savior of capitalism. For example, Bruce Bartlett called Rajan and Zingales 2003 book Saving Capitalism from the Capitalists: Unleashing the Power of Financial Markets to Spread Wealth and Opportunity, “one of the most powerful defences
of the free market ever written” (Chicago Booth Management Conference 2012). Between 2003 and 2006 Rajan was Director of Research and Economic Counsellor at the IMF before joining the University of Chicago Business School.

Sadly, economic education has become inculcation. Even one or two introductory classes in economics is sufficient to lay a foundation of constructs that stylizes a student’s understanding of the operation of markets and states. These constructs are buttressed by the daily popularized mainstream discourses of the media that sustains and reproduces neoliberal style representations of economic reality.

Policy paradigms can be supported in other important ways best understood in a broader political economy framework. Ideas, theories and policies arising in the social sciences don’t ineluctably percolate to the surface to dominate based on their mere cogency. Powerful interests commit financial resources to potential progenitors aimed at planting the seeds of the intellectual development of agenda supporting constructs. Once germinated, ideas and theories are carefully fertilized until they begin to bear fruit. Private foundations, large corporations and international, political and military organizations throw in their support once the instrumental value of an agenda becomes more widely recognized in turn contributing to the institutionalization of a new set of policy ideas. This very much is the story of neoliberalism.

4. The Sexus, Nexus and Plexus of Neoliberalism: The University of Chicago

While laissez faire dates back to the 17th century French traditions (physiocrats and others) and was later used by 19th century British economists like Mill and Bentham, it was largely discredited in the wake of the Gt. Depression. However, a new somewhat more pernicious form arose in the early post-war period. At the center were developments at the University of Chicago. Efforts there are best captured by Henry Miller’s titles of his famous trilogy of books published between 1948 and 1960. Sexus is the period of early liaisons central to the early thinking of ideas and philosophies. Plexus is a physiological term which refers to the creation of links necessary to the formation of a full corpus and nexus the connections that arise that allows the full corpus to flourish and influence.

Other universities also played a role in building neoliberalism. Fullbrook (2006) points to support for graduate and post-graduate education from the US Air Force and Rand Corporation of the Universities of California, Harvard, Stanford, Yale, Columbia and Princeton along with Chicago in line with their aim of encouraging mathematical economics and general equilibrium theory. Over time faculty from these department along with MIT which was heavily supported by the Pentagon took over the most prestigious journals which were used for appointments and promotion. Their graduates also tended to dominate the staff of the IMF and World Bank where the neoliberal model came to dominate.

However, it is difficult to exaggerate the role of the University of Chicago in the formation, development, application and dissemination of neoliberalism. It was this school that systematically trained Chilean economists in the 1950s and 60s who first created a state in a neoliberal image following the Pinochet coup of 1973 (Harvey 2005).
However, before recounting this history it should be emphasized that other branches of neoclassical economics helped lay the groundwork for neoliberalism. The depiction of economies as generating 19th century physics style equilibrium and stability following the work of Walras, Jevons and Fisher, the price marginal utility relationship of Carl Menger and the associated market legitimizing consumer sovereignty of Von Mises (see his “Human Action: A Treatise on Economics”), the Cowles Commission and its program encouraging econometrics, Rand corporation/US military and its financial support and promotion of Arrow-Debreu style Walrasian general equilibrium with the pretentious “proofs” of the uniqueness, existence and stability of equilibrium and the Hicks-Samuleson-Hansen gutting of Keynes message of instability and disequilibrium replaced by their static equilibrium framework (IS-LM curves). All of these contributed to an ideation of markets that demobilized the common sense notion that activist states were absolutely central to the functioning of a healthy mixed economy while promoting the market as a symbol of the apotheosis of human existence (Fullbrook 2006).

The story in Chicago begins with the 1934 publication of the U. of Chicago economist Henry Simon’s “A Positive Program for Laissez Faire”. Despite its title, this was not an extremist call for a laissez faire approach. In fact Simon called for the nationalization of industries which were too monopolistic.

However, he affirmed the ideal of the competitive market and fully supported a hands off approach when the conditions were present. He also provided the intellectual basis of Friedman’s later work on monetarism through his recommendation for a stable monetary rule for central banks. This was more fully developed in his 1948 book “Economic Policy for a Free Society”.

Friedman acknowledged this in his 1967 lecture on “The Monetary Theory and Policy of Henry Simons” where he pointed to Simon’s idea “that monetary stability is an essential prerequisite for economic stability” which called for the “establishment of a simple mechanical rule of monetary policy” (Milton Friedman 1967, p. 2). Simon who had close ties to the president of the University of Chicago, Robert Hutchins heavily promoted the hiring of Milton Friedman who joined the economics faculty in Spring, 1946.

At the same time, Simon was committed to building a policy focused institute at the university which would be built around the libertarian philosophy of the Chicago economics department. He laid out a 20 year vision of publications of scholarly and popular literature, facilitating academic discussions, bringing libertarian visiting professors to Chicago and influencing economic policy, political action and professional opinions in three memos. Simon was also instrumental in promoting Hayek at Chicago. Simon and Hayek developed a close friendship following Simon’s 1934. Simon referred to Hayek’s conservative tract “Road to Serfdom” as a “magnificent contribution” (quoted in Robert Van Horn and Philip Mirowski 2005). Partly due to Simon’s connections, Hayek was approached by Harold Luthnow in Chicago in 1945 during a first US speaking tour about writing an American version of the “Road to Serfdom”.

Luthnow was a wealthy businessman who set up the Volker Fund to support economic research with a laissez faire orientation. The Volker Fund sponsored
Hayek’s 1946 speaking tour of the US. Hayek proposed organizing a “Free Market Project” at the University of Chicago which would be devoted to developing a US version of the “Road to Serfdom” Hayek was instrumental in getting Luthnow to fund the project in the wake of the 1946 suicide of Simon. In the end Luthnow agreed to provide nearly $100,000 or well over a million in today’s dollars. Luthnow and the Volker Fund also financed the Hayek’s Mount Pelerin Society in Switzerland in 1947 and the formation of the MPS branch in Chicago in 1948 under the leadership of a group that included Friedman. Among other things the focus of the MPS was on the redefinition of the functions of the state to more clearly distinguish between totalitarian and the liberal order, reestablishing the rule of law to ensure that individual and groups are not capable of encroaching on the freedom of others, the establishment of standards that are not inimical to the initiative and functioning markets and the creation of international order permitting the establishment of harmonious economic relations. Hayek joined the faculty of the U. of Chicago in 1950.

In the end, the equivalent of the American Road “Capitalism and Freedom” was produced not by the Project but by Milton Friedman in 1962. It was based on a series of lectures he presented in 1956 (Van Horn and Mirowski 2005). It went further than anything Hayek could have done in promoting neoliberalism by glorifying economic freedom as an end in itself, in calling for the privatization of education, blaming monopolies on government policy and dismissing the consequences when linked to patents and property rights, by reducing the role of government to the basic function of guaranteeing property rights, stability of the money supply and law and order only, by promoting the simple-minded bifurcation of the world into a coerced central planning approach vs. the much preferred “voluntary” approach of the free market, by making the argument that economic freedom is a “necessary condition” for political freedom, by stressing the idea that no coercion can exist in the market place as long as buyers and sellers have choices, by rhetorically arguing that anyone opposed to the free market must be opposed to freedom itself, and by supporting economic inequality as an important mechanism for maintaining freedom because it concentrates resources which can be used to promote the cause of freedom. By 2002 more than half a million copies were sold worldwide (Friedman 2002).

However, Friedman’s passionate commitment to the popularization of neoliberalism went well beyond this. In 1980, he produced the PBS series “Free to Choose” and a book of the same name co-authored with his wife Rose. In the 1990 issue of a new edition he celebrated the times and his influence: “What appeared to many readers of the book in 1980 as utopian and unrealistic will appear to many readers as almost a blueprint for change. The tide has turned but it is still far from the flood needed to assure a bright future for human freedom” (Friedman and Rose Friedman 1990). “Free to Choose” was the top selling non-fiction book of 1980 and sold over one million copies in the US. It was also translated into 17 languages. In Japan, alone, the original 1980 edition sold more than 200,000 copies (Friedman and Friedman 1999).

While working on the popular front to build “habits of thought” in favour of neoliberalism, Friedman was also very active on the professional front not only in organizing the University of Chicago School of economics but in imprinting a meth-
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The Nobel award in economics has also played a central role in anointing the Chicago school of economics. The award which for many years was under the con-
trol of the conservative economist Assar Lindbeck heavily rewarded the Chicago school. Roughly 40% of the 70 prizes awarded in economics from 1969 to 2011 have gone to faculty, former faculty or students with degrees from the University of Chicago. Lindbeck awarded 15 of these when he was on the Nobel committee between 1969 and 1994. The award was a creation of the Swedish Central Bank in the 1960s not Alfred Nobel who detested economists. However it allowed winners to pretentiously compare themselves to Albert Einstein and other true Nobel laureates and helped bring legitimacy to theories that have led to human retrogression not emancipation (Fullbrook 2006).

By the early 1980s, neo-classical economics had come to dominate the economics departments of most major universities in the US. Retiring Institutionals, post-Keynesians and Marxists economist were not replaced. Critical reflection on methodology and the historical transformation of economic thought was discouraged and all but disappeared. Over time, emphasis was placed on form (mathematical models and increasingly sophisticated econometrics) not content and driven by a fundamental commitment to a core set of neoclassical axioms which buttressed the neoliberal vision of the operation of markets. The training of Ph.D.s from abroad in American and Western European universities extended neoclassical economics to every corner of the globe and demobilized any resistance to the neoliberal paradigm when it arrived. The same type of economics came to dominate the policy thinking inside the World Bank and IMF which became the global purveyors of the neoliberal policy paradigm through their loan conditionality in places like Africa (Stein 2008).

5. Africa and the Neoliberal Project

In the context of Africa’s three decade long experiment, neoliberalism achieved a meta-development status on the continent where all terms of discussion were set within the policy paradigm parameters. Neoliberalism lost its relativity as a single model of development and transitioned from the normalizing to the normative (Graham Harrison 2010).

Neoliberalism became embedded through the conduct, habits, and repertoire of development policy practice. Conduct implies the constitution of universal progressivism or a teleology. There is good and bad conduct and neoliberal practice is good conduct that will lead to a higher purpose or telos. Emphasis was always on outcomes not the method used to achieve the outcomes. In the initial phases, neoliberalism often invoked resistance and concerted efforts were used to overcome opposition. Expediency was achieved through executive orders. Debate was limited. It was not unusual to see “stroke of the pen” approaches to liberalizing exchange rates, removing food subsidies or abolishing marketing boards with little or no open debate in legislatures or public discussion. Over time good conduct began to focus on issues of sequencing, some social safety nets and good governance with its focus on transparency, accountability and the rule of law. Conduct went from mere consequentialism to a form of individual behaviour based on the neoliberal ideal of a motivated and efficient market agent (Harrison 2010).

Habit implies progress through repeated action. Habituated forms of neoliberal behavior arise through repeated and rewarded practice in the polity, economy and
society. In the initial phases neoliberal practices were largely extrinsic and imposed through external pressures often contributing to a climate of unstable elections, protest and economic crisis. Over time, multiparty political elections focused on which group could become better custodians of the neoliberal state and social engineering rather than who could provide alternatives to neoliberalism. Either new parties were elected on neoliberal platforms (Malawi and Zambia) or there were shift in the leadership of existing parties (Tanzania and Ghana) allowing for a greater mainstreaming of the neoliberal agenda. Increasingly emphasis was on depoliticizing decision making and creating the illusion that neoliberalism was scientific and technical (Harrison 2010). This was greatly assisted by donor funded training and retraining of economists in neoclassical economics through efforts like the African Economic Research Consortium in Nairobi.

Repertoire has involved bundles of practice which have aimed at destabilizing existing habits and replacing them with neoliberal behaviour. Deviations from neoliberal practices were punished with the freezing of tranches of foreign lending. Gradually repertoires were developed that would better ensure the continuity of aid flows. Consultants and civil servants increasingly incorporated the language of neoliberalism into their daily practices and lexicon (Harrison 2010). Repetition of practice created generalized habits of thought of neoliberalism. These were not passive entities but constructs that increasingly were invoked to connect actors to the growing neoliberal order. Their generality allowed for increased coordination, unity of purpose and greater behavioral certainty. Arguably, there was a determined effort by international agencies to deliberately promote shared ideologies, theories and concepts.

Capacity building projects and training became ubiquitous and included the hiring of outside consultants by the World Bank and donors who had the requisite theory and ideology. In 2002, for example, the conservative consultancy group Adam Smith International undertook a large capacity building project in the Ministry of Industry and Trade in Tanzania aimed at training to design a competitiveness policy for the Ministry. As part of a project examining “ownership” for SIDA, we interviewed a number of ministry officials in 2002 in Dar who had participated in the training and were astounded by the neo-liberal views of officials including anti-industrial policy comments like “governments should never chose winners” and “growth is best achieved through low and uniform tariffs”. There is little doubt that this form of training helped ease officials into the habits and repertoires of neoliberal practices inside the Ministry.

Perhaps most important to the World Bank and IMF’s neoliberal agenda in Africa was the creation of a “fifth column” of economists inside African countries. The near-collapse of African universities in the 80s and the allocation of large donor funds for “domestically” generated research projects in the name of capacity building created huge incentives for African academics to engage in the discourse of neoliberalism. Increasingly academics supplemented their university salaries with consultancies to produce donor financed reports on subjects of importance to donors at the expense of research on extant development problems contributing to what some authors refer to as an internal brain drain (Johnson Ishengoma 2007).
In the wake of the Great Recession, the power and influence of the World Bank and IMF sponsored neoliberal policies have now spread into Europe with the full cooperation and encouragement of the European community. Neoliberalism is already well entrenched in the habits, repertoires and conduct inside the European Central Bank, European Bank for Reconstruction and Development and other European institutions including many mainstream political parties (Christoph Herman 2007). There are few economics departments in European universities promoting anything but neoclassical economics. The arrival of the IMF further buttresses the institutionalization of neoliberalism on the continent.

6. Neoliberalism, the IMF, Europe and the Great Recession

The IMF loan to Latvia provides a typical example of the nature and impact of their programs in Europe and the continued IMF commitment to the neoliberal order. In January, 2009, Latvia received a Euro 1.7 billion standby loan from the IMF as part of a Euro 7.5 billion package of funds which included Euro 3.1 from the European Community and the rest from other European sources and the World Bank. At the same as the IMF was pointing to its flexibility, the NY Times ran articles on the “draconian measures” being imposed on countries like Latvia. The conditionality included a massive 25% cut in public sector wages in 2009, and a huge front loaded reduction in the lower the expected deficit from 12% to 5% of GDP, one-third from tax increases (regressive VAT and excise taxes) and two-thirds from across the board massive 25% cut in real spending (IMF 2009).

By the beginning of the downturn in 2007 through the end of 2009, the economy plummeted by 24. 1% second only to the Great Depression of the US in terms of economic collapses. Unemployment rose from 5.3% in 2007 to 20.5% in early 2010. Inclusion of the discouraged workers and part-time employment who would prefer to work full-time raised the rate to 30.1%. The situation was exacerbated by the high level of foreign currency loans (estimated at 89% of the total) and the agreement not to devalue the currency. The result has been an approach referred to as internal devaluation aimed at creating brutal labor market conditions with high levels of unemployment leading to the lowering of wages and hence an increase in competitiveness. In 2011, Latvia experienced some positive growth leading to neo-classical economists like Anders Aslund to declare Latvia as the model of how financial crises should be resolved (quoted in Weisbrot and Ray). However, through 2012 unemployment was still well above 15% (European Commission 2012). As Weisbrot and Ray (2011) point out at the current rate of recovery, it will take until 2016 just to get to the pre-crisis peak.

In the Eurozone, IMF and European loans to Greece, Portugal and Ireland have involved a similar neoliberal strategy of generating internal devaluations with terrible implications to employment levels and the standard of living of the population. In Portugal unemployment went from 8.5% in 2008 to 15.2% % in 2012. In Greece unemployment reached 22.5% in 2012 up from 7.7%. Still the IMF and the European community demanded and got a huge increase in austerity including a 22% cut in the minimum wage and the layoff of 150,00 additional government workers by 2015 (New York Times 2012).
In Ireland, the unemployment rate reached 14.8% in 2012 up from 4.6% in 2007 and 11.9% in 2009 (European Commission 2012). However, the rate would have been much higher except for an estimated emigration of around 25,000 in 2010 and 40,000 people in 2011. Meanwhile the NY Times was reporting that leaders like Angela Merkel and Nicolas Sarkozy were pointing to Ireland as an “excellent example” and “almost out of the crisis” (New York Times 2011). Similarly the press release of the IMF’s end of February, 2012 fifth review was singing praises of the great Irish achievements of their program which were not only tackling the deficit but solving unemployment and growth problems (IMF 2012).

Even without the IMF, the European governments have internalized IMF policies (Gary Dymski 2011). In Spain, unemployment hit 24.6% in May, 2012. In July, 2012, the government passed a package of neoliberal policies including a rise in VAT, cuts in unemployment benefits, civil service salaries and bonuses, privatization of state enterprises, and administrative reforms. In total the austerity package is estimated at 65 billion Euros (Yahoo 2012). On March, 2, 2012, all but two (Czech Republic and the UK) of the 27 European countries signed the new pact to tighten budget discipline further entrenching neoliberalism on the continent.

While some critics of orthodox policy believe that this crisis will lead to significant changes in prudential, macro, monetary and global monetary institutions (Phillip A. O’Hara 2011), others believe along the lines of this paper, that the recovery of the global economy has become dimmer as governments falsely believe that the solution to the current crisis is “fixing broken neoliberal mechanisms” (Dymski 2011, p. 1).

7. Conclusions

Along the lines suggested by Fulbrook documenting the impact of neoliberalism is not enough. We must understand the historical source and perpetuation of what he refers to as an “intellectual poison”. Toward that purpose, the paper has reviewed some of the ideological, methodological, theoretical, historical, political and economic interests behind the institutionalization and perpetuation of neoliberalism in the face of an economic crisis that has been clearly caused by these policies. Among other things, neoliberalism has been a source of huge profits for finance capital through its encouragement of the financialization of the economy. The ability to socialize the risk from the ensuing collapse with virtual impunity while keeping profits has provided a powerful constituency supporting the perpetuation of neoliberal policies both domestically and globally.

In the United States, massive financial support to political candidates supporting the neoliberal agenda is a strong indicator of their instrumentality in perpetuating wealth and inequality. The 2010 Supreme Court ruling “Citizens United” removed all restrictions on donations to political action committees (now known as Super PACs) from individuals, corporations and unions.

This does not bode well for the 2012 and future elections. The two conservative industrialists, the Koch brothers, that organize meetings twice a year of the wealthiest in the US to support conservative Republican candidates have a net worth
of an estimated $25 billion dollars each. The total net worth of just a handful of the richest donors to Republican causes including the Koch brothers exceeds $175 billion (Koch brothers, Walton Family, Sheldon Adelson, Rupert Murdoch and Harold Simmons (Forbes Magazine 2012)). Spending just 1% of their net worth would place nearly $2 billion dollars into the coffers of the Republican PACs. These numbers do not seem so preposterous. One former Romney aide running the pro-Republican Super PAC American Crossroads will raise an estimated $400 million during the 2012 campaign (Nicholas Confessore 2012). This does not include the activities of dozens of other pro-Republican Super PACs and other conservative policy advocate groups. This kind of “investment” by the wealthy could certainly be justified given the potential payoff from neoliberal policies including curtailing social spending to finance tax cuts, privatizing social security by handing over its management to Wall Street and deregulating finance, environmental and labour laws.

The wealthy are also the big winner in Europe. Risk has been socialized through IMF and EU loans which are used to support the payments to bank and other private holders of debt and to rescue banks from poor loan portfolios. The social and economic functions of states are truncated so they can assume new debt obligations, while assets are privatized to generate additional revenue. Wages have been cut and labour markets have been deregulated leading to a rise in potential profits.

Developments in the economics profession have also clearly been a central dimension of the story. Many neoclassical economists would not openly consider themselves to be proponents of neoliberal policies or the Chicago school of economics. Yet this raises the question of why there is not a stronger push for an alternative theoretical paradigm. There is little doubt that most economists today are not methodologically self-conscious and are largely embedded in the world of marginal theoretical verification (not rejection) using increasingly complicated econometrics. There is little to be gained career-wise from empirical debates that challenge neoliberal policies. Alexander Rosenberg (1994) argues there are other reasons economists continue to use cognitively weak core propositions which form the basis of neoliberalism. For normative reasons, the assumptions underlying the neoclassical model are very attractive since they lead to the elegant world of how self-interest ought to lead to a coherent disposition of resources.

Moreover, like the Euclidian world that dominated the science of space for so long, economists have gone about their mathematical business without thinking about the cognitive status of economic theory. “They have treated microeconomics as a pure axiomatic system whose terms may or may not be instantiated in the real world, but which is of great interest, like Euclidian geometry, whether or not its objects actually exist” (p. 229). At the same time they have been active as paradigm warriors defending their type of economics as the only legitimate approach. This does not bode well for those hoping that the Great Recession will lead economists to challenge the core propositions that underlie neoliberalism.
References


