

to proclaim the emergence of a new kind of 'information society'). These technologies have compressed the rising density of market transactions in both space and time. They have produced a particularly intensive burst of what I have elsewhere called 'time-space compression'. The greater the geographical range (hence the emphasis on 'globalization') and the shorter the term of market contracts the better. This latter preference parallels Lyotard's famous description of the postmodern condition as one where 'the temporary contract' supplants 'permanent institutions in the professional, emotional, sexual, cultural, family and international domains, as well as in political affairs'. The cultural consequences of the dominance of such a market ethic are legion, as I earlier showed in *The Condition of Postmodernity*.<sup>3</sup>

While many general accounts of global transformations and their effects are now available, what is generally missing—and this is the gap this book aims to fill—is the political-economic story of where neoliberalization came from and how it proliferated so comprehensively on the world stage. Critical engagement with that story suggests, furthermore, a framework for identifying and constructing alternative political and economic arrangements.

I have benefited in recent times from conversations with Gerard Duménil, Sam Gindin, and Leo Panitch. I have more longstanding debts to Masao Miyoshi, Giovanni Arrighi, Patrick Bond, Cindi Katz, Neil Smith, Bertell Ollman, Maria Kaika, and Erik Swyngedouw. A conference on neoliberalism sponsored by the Rosa Luxemburg Foundation in Berlin in November 2001 first sparked my interest in this topic. I thank the Provost at the CUNY Graduate Center, Bill Kelly, and my colleagues and students primarily but not exclusively in the Anthropology Program for their interest and support. I absolve everyone, of course, from any responsibility for the results.

## Freedom's Just Another Word . . .

For any way of thought to become dominant, a conceptual apparatus has to be advanced that appeals to our intuitions and instincts, to our values and our desires, as well as to the possibilities inherent in the social world we inhabit. If successful, this conceptual apparatus becomes so embedded in common sense as to be taken for granted and not open to question. The founding figures of neoliberal thought took political ideals of human dignity and individual freedom as fundamental, as 'the central values of civilization'. In so doing they chose wisely, for these are indeed compelling and seductive ideals. These values, they held, were threatened not only by fascism, dictatorships, and communism, but by all forms of state intervention that substituted collective judgements for those of individuals free to choose.

Concepts of dignity and individual freedom are powerful and appealing in their own right. Such ideals empowered the dissident movements in eastern Europe and the Soviet Union before the end of the Cold War as well as the students in Tiananmen Square. The student movements that swept the world in 1968—from Paris and Chicago to Bangkok and Mexico City—were in part animated by the quest for greater freedoms of speech and of personal choice. More generally, these ideals appeal to anyone who values the ability to make decisions for themselves.

The idea of freedom, long embedded in the US tradition, has played a conspicuous role in the US in recent years. '9/11' was immediately interpreted by many as an attack on it. 'A peaceful world of growing freedom', wrote President Bush on the first anniversary of that awful day, 'serves American long-term interests, reflects enduring American ideals and unites America's allies.' 'Humanity', he concluded, 'holds in its hands the opportunity to

offer freedom's triumph over all its age-old foes', and 'the United States welcomes its responsibilities to lead in this great mission'. This language was incorporated into the US National Defense Strategy document issued shortly thereafter. 'Freedom is the Almighty's gift to every man and woman in this world', he later said, adding that 'as the greatest power on earth we have an obligation to help the spread of freedom'.<sup>1</sup>

When all of the other reasons for engaging in a pre-emptive war against Iraq were proven wanting, the president appealed to the idea that the freedom conferred on Iraq was in and of itself an adequate justification for the war. The Iraqis were free, and that was all that really mattered. But what sort of 'freedom' is envisaged here, since, as the cultural critic Matthew Arnold long ago thoughtfully observed, 'freedom is a very good horse to ride, but to ride somewhere'.<sup>2</sup> To what destination, then, are the Iraqi people expected to ride the horse of freedom donated to them by force of arms?

The Bush administration's answer to this question was spelled out on 19 September 2003, when Paul Bremer, head of the Coalition Provisional Authority, promulgated four orders that included 'the full privatization of public enterprises, full ownership rights by foreign firms of Iraqi businesses, full repatriation of foreign profits . . . the opening of Iraq's banks to foreign control, national treatment for foreign companies and . . . the elimination of nearly all trade barriers'.<sup>3</sup> The orders were to apply to all areas of the economy, including public services, the media, manufacturing, services, transportation, finance, and construction. Only oil was exempt (presumably because of its special status as revenue producer to pay for the war and its geopolitical significance). The labour market, on the other hand, was to be strictly regulated. Strikes were effectively forbidden in key sectors and the right to unionize restricted. A highly regressive 'flat tax' (an ambitious tax-reform plan long advocated for implementation by conservatives in the US) was also imposed.

These orders were, some argued, in violation of the Geneva and Hague Conventions, since an occupying power is mandated to guard the assets of an occupied country and not sell them off.<sup>4</sup> Some Iraqis resisted the imposition of what the London *Economist*

called a 'capitalist dream' regime upon Iraq. A member of the US-appointed Coalition Provisional Authority forcefully criticized the imposition of 'free market fundamentalism', calling it 'a flawed logic that ignores history'.<sup>5</sup> Though Bremer's rules may have been illegal when imposed by an occupying power, they would become legal if confirmed by a 'sovereign' government. The interim government, appointed by the US, that took over at the end of June 2004 was declared 'sovereign'. But it only had the power to confirm existing laws. Before the handover, Bremer multiplied the number of laws to specify free-market and free-trade rules in minute detail (on detailed matters such as copyright laws and intellectual property rights), expressing the hope that these institutional arrangements would 'take on a life and momentum of their own' such that they would prove very difficult to reverse.<sup>6</sup>

According to neoliberal theory, the sorts of measures that Bremer outlined were both necessary and sufficient for the creation of wealth and therefore for the improved well-being of the population at large. The assumption that individual freedoms are guaranteed by freedom of the market and of trade is a cardinal feature of neoliberal thinking, and it has long dominated the US stance towards the rest of the world.<sup>7</sup> What the US evidently sought to impose by main force on Iraq was a state apparatus whose fundamental mission was to facilitate conditions for profitable capital accumulation on the part of both domestic and foreign capital. I call this kind of state apparatus a *neoliberal state*. The freedoms it embodies reflect the interests of private property owners, businesses, multinational corporations, and financial capital. Bremer invited the Iraqis, in short, to ride their horse of freedom straight into the neoliberal corral.

The first experiment with neoliberal state formation, it is worth recalling, occurred in Chile after Pinochet's coup on the 'little September 11th' of 1973 (almost thirty years to the day before Bremer's announcement of the regime to be installed in Iraq). The coup, against the democratically elected government of Salvador Allende, was promoted by domestic business elites threatened by Allende's drive towards socialism. It was backed by US corporations, the CIA, and US Secretary of State Henry Kissinger. It violently repressed all the social movements and political

organizations of the left and dismantled all forms of popular organization (such as the community health centres in poorer neighbourhoods). The labour market was 'freed' from regulatory or institutional restraints (trade union power, for example). But how was the stalled economy to be revived? The policies of import substitution (fostering national industries by subsidies or tariff protections) that had dominated Latin American attempts at economic development had fallen into disrepute, particularly in Chile, where they had never worked that well. With the whole world in economic recession, a new approach was called for.

A group of economists known as 'the Chicago boys' because of their attachment to the neoliberal theories of Milton Friedman, then teaching at the University of Chicago, was summoned to help reconstruct the Chilean economy. The story of how they were chosen is an interesting one. The US had funded training of Chilean economists at the University of Chicago since the 1950s as part of a Cold War programme to counteract left-wing tendencies in Latin America. Chicago-trained economists came to dominate at the private Catholic University in Santiago. During the early 1970s, business elites organized their opposition to Allende through a group called 'the Monday Club' and developed a working relationship with these economists, funding their work through research institutes. After General Gustavo Leigh, Pinochet's rival for power and a Keynesian, was sidelined in 1975, Pinochet brought these economists into the government, where their first job was to negotiate loans with the International Monetary Fund. Working alongside the IMF, they restructured the economy according to their theories. They reversed the nationalizations and privatized public assets, opened up natural resources (fisheries, timber, etc.) to private and unregulated exploitation (in many cases riding roughshod over the claims of indigenous inhabitants), privatized social security, and facilitated foreign direct investment and freer trade. The right of foreign companies to repatriate profits from their Chilean operations was guaranteed. Export-led growth was favoured over import substitution. The only sector reserved for the state was the key resource of copper (rather like oil in Iraq). This proved crucial to the budgetary viability of the state since copper revenues flowed exclusively into its coffers. The immediate

revival of the Chilean economy in terms of growth rates, capital accumulation, and high rates of return on foreign investments was short-lived. It all went sour in the Latin American debt crisis of 1982. The result was a much more pragmatic and less ideologically driven application of neoliberal policies in the years that followed. All of this, including the pragmatism, provided helpful evidence to support the subsequent turn to neoliberalism in both Britain (under Thatcher) and the US (under Reagan) in the 1980s. Not for the first time, a brutal experiment carried out in the periphery became a model for the formulation of policies in the centre (much as experimentation with the flat tax in Iraq has been proposed under Bremer's decrees).<sup>8</sup>

The fact that two such obviously similar restructurings of the state apparatus occurred at such different times in quite different parts of the world under the coercive influence of the United States suggests that the grim reach of US imperial power might lie behind the rapid proliferation of neoliberal state forms throughout the world from the mid-1970s onwards. While this has undoubtedly occurred over the last thirty years, it by no means constitutes the whole story, as the domestic component of the neoliberal turn in Chile shows. It was not the US, furthermore, that forced Margaret Thatcher to take the pioneering neoliberal path she took in 1979. Nor was it the US that forced China in 1978 to set out on a path of liberalization. The partial moves towards neoliberalization in India in the 1980s and Sweden in the early 1990s cannot easily be attributed to the imperial reach of US power. The uneven geographical development of neoliberalism on the world stage has evidently been a very complex process entailing multiple determinations and not a little chaos and confusion. Why, then, did the neoliberal turn occur, and what were the forces that made it so hegemonic within global capitalism?

### Why the Neoliberal Turn?

The restructuring of state forms and of international relations after the Second World War was designed to prevent a return to the catastrophic conditions that had so threatened the capitalist order in the great slump of the 1930s. It was also supposed to

prevent the re-emergence of inter-state geopolitical rivalries that had led to the war. To ensure domestic peace and tranquillity, some sort of class compromise between capital and labour had to be constructed. The thinking at the time is perhaps best represented by an influential text by two eminent social scientists, Robert Dahl and Charles Lindblom, published in 1953. Both capitalism and communism in their raw forms had failed, they argued. The only way ahead was to construct the right blend of state, market, and democratic institutions to guarantee peace, inclusion, well-being, and stability.<sup>9</sup> Internationally, a new world order was constructed through the Bretton Woods agreements, and various institutions, such as the United Nations, the World Bank, the IMF, and the Bank of International Settlements in Basle, were set up to help stabilize international relations. Free trade in goods was encouraged under a system of fixed exchange rates anchored by the US dollar's convertibility into gold at a fixed price. Fixed exchange rates were incompatible with free flows of capital that had to be controlled, but the US had to allow the free flow of the dollar beyond its borders if the dollar was to function as the global reserve currency. This system existed under the umbrella protection of US military power. Only the Soviet Union and the Cold War placed limits on its global reach.

A variety of social democratic, Christian democratic and dirigiste states emerged in Europe after the Second World War. The US itself turned towards a liberal democratic state form, and Japan, under the close supervision of the US, built a nominally democratic but in practice highly bureaucratic state apparatus empowered to oversee the reconstruction of that country. What all of these various state forms had in common was an acceptance that the state should focus on full employment, economic growth, and the welfare of its citizens, and that state power should be freely deployed, alongside of or, if necessary, intervening in or even substituting for market processes to achieve these ends. Fiscal and monetary policies usually dubbed 'Keynesian' were widely deployed to dampen business cycles and to ensure reasonably full employment. A 'class compromise' between capital and labour was generally advocated as the key guarantor of domestic peace and tranquillity. States actively intervened in industrial policy and

moved to set standards for the social wage by constructing a variety of welfare systems (health care, education, and the like).

This form of political-economic organization is now usually referred to as 'embedded liberalism', to signal how market processes and entrepreneurial and corporate activities were surrounded by a web of social and political constraints and a regulatory environment that sometimes restrained but in other instances led the way in economic and industrial strategy.<sup>10</sup> State-led planning and in some instances state ownership of key sectors (coal, steel, automobiles) were not uncommon (for example in Britain, France, and Italy). The neoliberal project is to disembed capital from these constraints.

Embedded liberalism delivered high rates of economic growth in the advanced capitalist countries during the 1950s and 1960s.<sup>11</sup> In part this depended on the largesse of the US in being prepared to run deficits with the rest of the world and to absorb any excess product within its borders. This system conferred benefits such as expanding export markets (most obviously for Japan but also unevenly across South America and to some other countries of South-East Asia), but attempts to export 'development' to much of the rest of the world largely stalled. For much of the Third World, particularly Africa, embedded liberalism remained a pipe dream. The subsequent drive towards neoliberalization after 1980 entailed little material change in their impoverished condition. In the advanced capitalist countries, redistributive politics (including some degree of political integration of working-class trade union power and support for collective bargaining), controls over the free mobility of capital (some degree of financial repression through capital controls in particular), expanded public expenditures and welfare state-building, active state interventions in the economy, and some degree of planning of development went hand in hand with relatively high rates of growth. The business cycle was successfully controlled through the application of Keynesian fiscal and monetary policies. A social and moral economy (sometimes supported by a strong sense of national identity) was fostered through the activities of an interventionist state. The state in effect became a force field that internalized class relations. Working-class institutions such as labour unions and political

parties of the left had a very real influence within the state apparatus.

By the end of the 1960s embedded liberalism began to break down, both internationally and within domestic economies. Signs of a serious crisis of capital accumulation were everywhere apparent. Unemployment and inflation were both surging everywhere, ushering in a global phase of stagflation that lasted throughout much of the 1970s. Fiscal crises of various states (Britain, for example, had to be bailed out by the IMF in 1975-6) resulted as tax revenues plunged and social expenditures soared. Keynesian policies were no longer working. Even before the Arab-Israeli War and the OPEC oil embargo of 1973, the Bretton Woods system of fixed exchange rates backed by gold reserves had fallen into disarray. The porosity of state boundaries with respect to capital flows put stress on the system of fixed exchange rates. US dollars had flooded the world and escaped US controls by being deposited in European banks. Fixed exchange rates were therefore abandoned in 1971. Gold could no longer function as the metallic base of international money; exchange rates were allowed to float, and attempts to control the float were soon abandoned. The embedded liberalism that had delivered high rates of growth to at least the advanced capitalist countries after 1945 was clearly exhausted and was no longer working. Some alternative was called for if the crisis was to be overcome.

One answer was to deepen state control and regulation of the economy through corporatist strategies (including, if necessary, curbing the aspirations of labour and popular movements through austerity measures, incomes policies, and even wage and price controls). This answer was advanced by socialist and communist parties in Europe, with hopes pinned on innovative experiments in governance in places such as communist-controlled 'Red Bologna' in Italy, on the revolutionary transformation of Portugal in the wake of the collapse of fascism, on the turn towards a more open market socialism and ideas of 'Eurocommunism', particularly in Italy (under the leadership of Berlinguer) and in Spain (under the influence of Carrillo), or on the expansion of the strong social democratic welfare state tradition in Scandinavia. The left assembled considerable popular power behind such programmes, coming close to power in

Italy and actually acquiring state power in Portugal, France, Spain, and Britain, while retaining power in Scandinavia. Even in the United States, a Congress controlled by the Democratic Party legislated a huge wave of regulatory reform in the early 1970s (signed into law by Richard Nixon, a Republican president, who in the process even went so far as to remark that 'we are all Keynesians now'), governing everything from environmental protection to occupational safety and health, civil rights, and consumer protection.<sup>12</sup> But the left failed to go much beyond traditional social democratic and corporatist solutions and these had by the mid-1970s proven inconsistent with the requirements of capital accumulation. The effect was to polarize debate between those ranged behind social democracy and central planning on the one hand (who, when in power, as in the case of the British Labour Party, often ended up trying to curb, usually for pragmatic reasons, the aspirations of their own constituencies), and the interests of all those concerned with liberating corporate and business power and re-establishing market freedoms on the other. By the mid-1970s, the interests of the latter group came to the fore. But how were the conditions for the resumption of active capital accumulation to be restored?

How and why neoliberalism emerged victorious as the single answer to this question is the crux of the problem we have to solve. In retrospect it may seem as if the answer was both inevitable and obvious, but at the time, I think it is fair to say, no one really knew or understood with any certainty what kind of answer would work and how. The capitalist world stumbled towards neoliberalization as the answer through a series of gyrations and chaotic experiments that really only converged as a new orthodoxy with the articulation of what became known as the 'Washington Consensus' in the 1990s. By then, both Clinton and Blair could easily have reversed Nixon's earlier statement and simply said 'We are all neoliberals now.' The uneven geographical development of neoliberalism, its frequently partial and lop-sided application from one state and social formation to another, testifies to the tentativeness of neoliberal solutions and the complex ways in which political forces, historical traditions, and existing institutional arrangements all shaped why and how the process of neoliberalization actually occurred.

There is, however, one element within this transition that deserves specific attention. The crisis of capital accumulation in the 1970s affected everyone through the combination of rising unemployment and accelerating inflation (Figure 1.1). Discontent

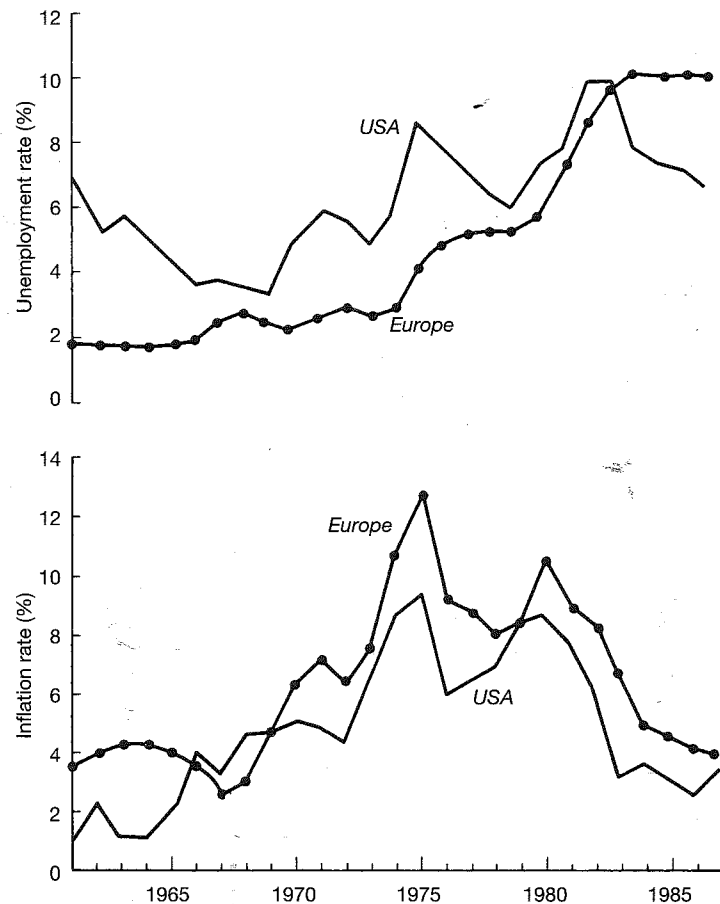


Figure 1.1 The economic crisis of the 1970s: inflation and unemployment in the US and Europe, 1960–1987

Source: Harvey, *The Condition of Postmodernity*.

was widespread and the conjoining of labour and urban social movements throughout much of the advanced capitalist world appeared to point towards the emergence of a socialist alternative to the social compromise between capital and labour that had grounded capital accumulation so successfully in the post-war period. Communist and socialist parties were gaining ground, if not taking power, across much of Europe and even in the United States popular forces were agitating for widespread reforms and state interventions. There was, in this, a clear political threat to economic elites and ruling classes everywhere both in the advanced capitalist countries (such as Italy, France, Spain, and Portugal) and in many developing countries (such as Chile, Mexico, and Argentina). In Sweden, for example, what was known as the Rehn–Meidner plan literally offered to gradually buy out the owners' share in their own businesses and turn the country into a worker/share-owner democracy. But, beyond this, the *economic threat to the position of ruling elites and classes was now becoming palpable*. One condition of the post-war settlement in almost all countries was that the economic power of the upper classes be restrained and that labour be accorded a much larger share of the economic pie. In the US, for example, the share of the national income taken by the top 1 per cent of income earners fell from a pre-war high of 16 per cent to less than 8 per cent by the end of the Second World War, and stayed close to that level for nearly three decades. While growth was strong this restraint seemed not to matter. To have a stable share of an increasing pie is one thing. But when growth collapsed in the 1970s, when real interest rates went negative and paltry dividends and profits were the norm, then upper classes everywhere felt threatened. In the US the control of wealth (as opposed to income) by the top 1 per cent of the population had remained fairly stable throughout the twentieth century. But in the 1970s it plunged precipitously (Figure 1.2) as asset values (stocks, property, savings) collapsed. The upper classes had to move decisively if they were to protect themselves from political and economic annihilation.

The coup in Chile and the military takeover in Argentina, promoted internally by the upper classes with US support, provided one kind of solution. The subsequent Chilean experiment with

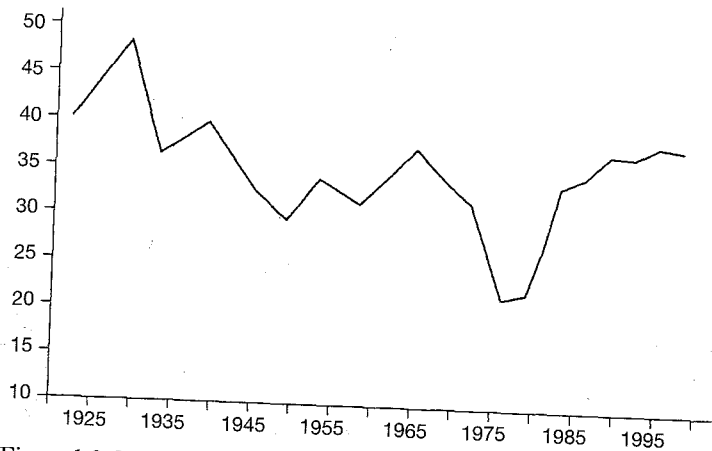


Figure 1.2 The wealth crash of the 1970s: share of assets held by the top 1% of the US population, 1922–1998

Source: Duménil and Lévy, *Capital Resurgent*.

neoliberalism demonstrated that the benefits of revived capital accumulation were highly skewed under forced privatization. The country and its ruling elites, along with foreign investors, did extremely well in the early stages. Redistributive effects and increasing social inequality have in fact been such a persistent feature of neoliberalization as to be regarded as structural to the whole project. Gérard Duménil and Dominique Lévy, after careful reconstruction of the data, have concluded that neoliberalization was from the very beginning a project to achieve the restoration of class power. After the implementation of neoliberal policies in the late 1970s, the share of national income of the top 1 per cent of income earners in the US soared, to reach 15 per cent (very close to its pre-Second World War share) by the end of the century. The top 0.1 per cent of income earners in the US increased their share of the national income from 2 per cent in 1978 to over 6 per cent by 1999, while the ratio of the median compensation of workers to the salaries of CEOs increased from just over 30 to 1 in 1970 to nearly 500 to 1 by 2000 (Figures 1.3 and 1.4). Almost certainly, with the Bush administration's tax reforms now taking effect, the concentration of income and wealth in the upper echelons of society is

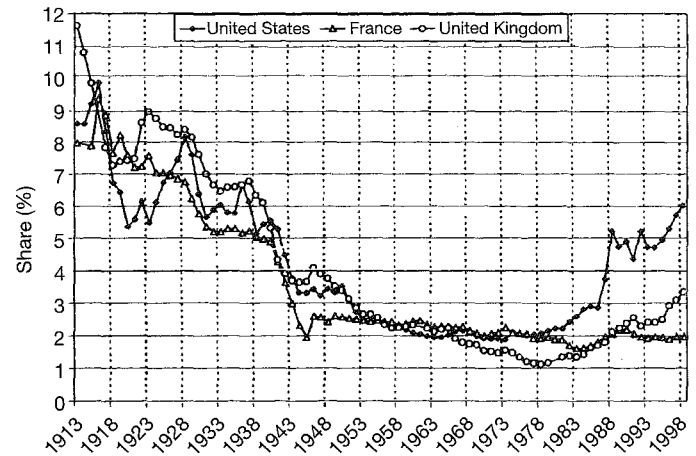
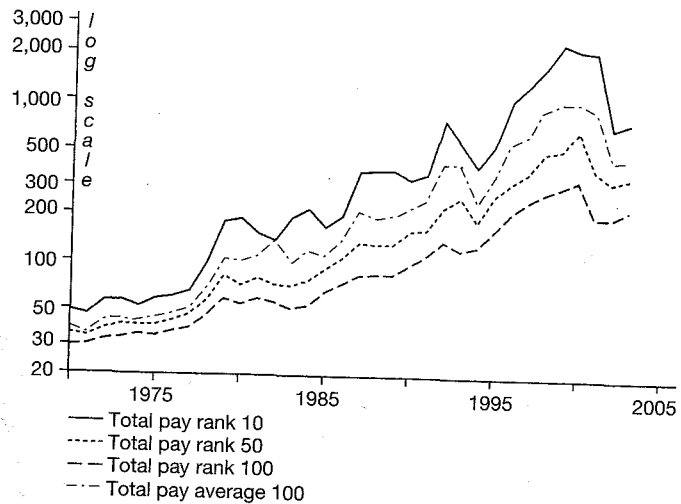


Figure 1.3 The restoration of class power: share in national income of the top 0.1% of the population, US, Britain, and France, 1913–1998

Source: Task Force on Inequality and American Democracy, *American Democracy in an Age of Rising Inequality*.

continuing apace because the estate tax (a tax on wealth) is being phased out and taxation on income from investments and capital gains is being diminished, while taxation on wages and salaries is maintained.<sup>13</sup>

The US is not alone in this: the top 1 per cent of income earners in Britain have doubled their share of the national income from 6.5 per cent to 13 per cent since 1982. And when we look further afield we see extraordinary concentrations of wealth and power emerging all over the place. A small and powerful oligarchy arose in Russia after neoliberal 'shock therapy' had been administered there in the 1990s. Extraordinary surges in income inequalities and wealth have occurred in China as it has adopted free-market-oriented practices. The wave of privatization in Mexico after 1992 catapulted a few individuals (such as Carlos Slim) almost overnight into Fortune's list of the world's wealthiest people. Globally, 'the countries of Eastern Europe and the CIS have registered some of the largest increases ever ... in social inequality. OECD countries also



The first three curves show the rise of the pay of CEOs according to their rank in the hierarchy of remunerations: 10th, 50th, and 100th. The other curve (— · —) corresponds to the average pay of the 100 CEOs with higher remunerations. Note that 1,000 means 1,000 times the average salary.

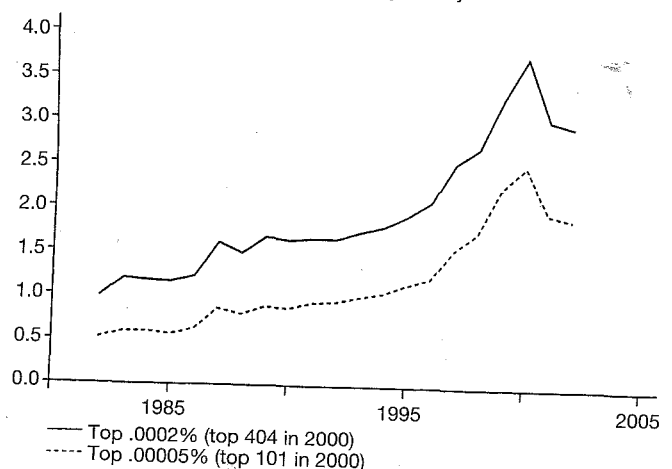


Figure 1.4 The concentration of wealth and earning power in the US: CEO remuneration in relation to average US salaries, 1970–2003, and wealth shares of the richest families, 1982–2002  
 Source: Duménil and Lévy, 'Neoliberal Income Trends'.

registered big increases in inequality after the 1980s', while 'the income gap between the fifth of the world's people living in the richest countries and the fifth in the poorest was 74 to 1 in 1997, up from 60 to 1 in 1990 and 30 to 1 in 1960'.<sup>14</sup> While there are exceptions to this trend (several East and South-East Asian countries have so far contained income inequalities within reasonable bounds, as has France—see Figure 1.3), the evidence strongly suggests that the neoliberal turn is in some way and to some degree associated with the restoration or reconstruction of the power of economic elites.

We can, therefore, interpret neoliberalization either as a *utopian* project to realize a theoretical design for the reorganization of international capitalism or as a *political* project to re-establish the conditions for capital accumulation and to restore the power of economic elites. In what follows I shall argue that the second of these objectives has in practice dominated. Neoliberalization has not been very effective in revitalizing global capital accumulation, but it has succeeded remarkably well in restoring, or in some instances (as in Russia and China) creating, the power of an economic elite. The theoretical utopianism of neoliberal argument has, I conclude, primarily worked as a system of justification and legitimation for whatever needed to be done to achieve this goal. The evidence suggests, moreover, that when neoliberal principles clash with the need to restore or sustain elite power, then the principles are either abandoned or become so twisted as to be unrecognizable. (This in no way denies the power of ideas to act as a force for historical-geographical change.) But it does point to a creative tension between the power of neoliberal ideas and the actual practices of neoliberalization that have transformed how global capitalism has been working over the last three decades.

### The Rise of Neoliberal Theory

Neoliberalism as a potential antidote to threats to the capitalist social order and as a solution to capitalism's ills had long been lurking in the wings of public policy. A small and exclusive group of passionate advocates—mainly academic economists, historians, and philosophers—had gathered together around the renowned



Austrian political philosopher Friedrich von Hayek to create the Mont Pelerin Society (named after the Swiss spa where they first met) in 1947 (the notables included Ludvig von Mises, the economist Milton Friedman, and even, for a time, the noted philosopher Karl Popper). The founding statement of the society read as follows:

The central values of civilization are in danger. Over large stretches of the earth's surface the essential conditions of human dignity and freedom have already disappeared. In others they are under constant menace from the development of current tendencies of policy. The position of the individual and the voluntary group are progressively undermined by extensions of arbitrary power. Even that most precious possession of Western Man, freedom of thought and expression, is threatened by the spread of creeds which, claiming the privilege of tolerance when in the position of a minority, seek only to establish a position of power in which they can suppress and obliterate all views but their own.

The group holds that these developments have been fostered by the growth of a view of history which denies all absolute moral standards and by the growth of theories which question the desirability of the rule of law. It holds further that they have been fostered by a decline of belief in private property and the competitive market; for without the diffused power and initiative associated with these institutions it is difficult to imagine a society in which freedom may be effectively preserved.<sup>15</sup>

The group's members depicted themselves as 'liberals' (in the traditional European sense) because of their fundamental commitment to ideals of personal freedom. The neoliberal label signalled their adherence to those free market principles of neo-classical economics that had emerged in the second half of the nineteenth century (thanks to the work of Alfred Marshall, William Stanley Jevons, and Leon Walras) to displace the classical theories of Adam Smith, David Ricardo, and, of course, Karl Marx. Yet they also held to Adam Smith's view that the hidden hand of the market was the best device for mobilizing even the basest of human instincts such as gluttony, greed, and the desire for wealth and power for the benefit of all. Neoliberal doctrine was therefore deeply opposed to state interventionist theories, such as those of John Maynard Keynes, which rose to prominence in the 1930s in

response to the Great Depression. Many policy-makers after the Second World War looked to Keynesian theory to guide them as they sought to keep the business cycle and recessions under control. The neoliberals were even more fiercely opposed to theories of centralized state planning, such as those advanced by Oscar Lange working close to the Marxist tradition. State decisions, they argued, were bound to be politically biased depending upon the strength of the interest groups involved (such as unions, environmentalists, or trade lobbies). State decisions on matters of investment and capital accumulation were bound to be wrong because the information available to the state could not rival that contained in market signals.

This theoretical framework is not, as several commentators have pointed out, entirely coherent.<sup>16</sup> The scientific rigour of its neoclassical economics does not sit easily with its political commitment to ideals of individual freedom, nor does its supposed distrust of all state power fit with the need for a strong and if necessary coercive state that will defend the rights of private property, individual liberties, and entrepreneurial freedoms. The juridical trick of defining corporations as individuals before the law introduces its own biases, rendering ironic John D. Rockefeller's personal credo etched in stone in the Rockefeller Center in New York City, where he places 'the supreme worth of the individual' above all else. And there are, as we shall see, enough contradictions in the neoliberal position to render evolving neoliberal practices (vis-à-vis issues such as monopoly power and market failures) unrecognizable in relation to the seeming purity of neoliberal doctrine. We have to pay careful attention, therefore, to the tension between the theory of neoliberalism and the actual pragmatics of neoliberalization.

Hayek, author of key texts such as *The Constitution of Liberty*, presciently argued that the battle for ideas was key, and that it would probably take at least a generation for that battle to be won, not only against Marxism but against socialism, state planning, and Keynesian interventionism. The Mont Pelerin group garnered financial and political support. In the US in particular, a powerful group of wealthy individuals and corporate leaders who were viscerally opposed to all forms of state intervention and

regulation, and even to internationalism sought to organize opposition to what they saw as an emerging consensus for pursuing a mixed economy. Fearful of how the alliance with the Soviet Union and the command economy constructed within the US during the Second World War might play out politically in a post-war setting, they were ready to embrace anything from McCarthyism to neoliberal think-tanks to protect and enhance their power. Yet this movement remained on the margins of both policy and academic influence until the troubled years of the 1970s. At that point it began to move centre-stage, particularly in the US and Britain, nurtured in various well-financed think-tanks (offshoots of the Mont Pelerin Society, such as the Institute of Economic Affairs in London and the Heritage Foundation in Washington), as well as through its growing influence within the academy, particularly at the University of Chicago, where Milton Friedman dominated. Neoliberal theory gained in academic respectability by the award of the Nobel Prize in economics to Hayek in 1974 and Friedman in 1976. This particular prize, though it assumed the aura of Nobel, had nothing to do with the other prizes and was under the tight control of Sweden's banking elite. Neoliberal theory, particularly in its monetarist guise, began to exert practical influence in a variety of policy fields. During the Carter presidency, for example, deregulation of the economy emerged as one of the answers to the chronic state of stagflation that had prevailed in the US throughout the 1970s. But the dramatic consolidation of neoliberalism as a new economic orthodoxy regulating public policy at the state level in the advanced capitalist world occurred in the United States and Britain in 1979.

In May of that year Margaret Thatcher was elected in Britain with a strong mandate to reform the economy. Under the influence of Keith Joseph, a very active and committed publicist and polemicist with strong connections to the neoliberal Institute of Economic Affairs, she accepted that Keynesianism had to be abandoned and that monetarist 'supply-side' solutions were essential to cure the stagflation that had characterized the British economy during the 1970s. She recognized that this meant nothing short of a revolution in fiscal and social policies, and immediately signalled a fierce determination to have done with the institutions and

political ways of the social democratic state that had been consolidated in Britain after 1945. This entailed confronting trade union power, attacking all forms of social solidarity that hindered competitive flexibility (such as those expressed through municipal governance, and including the power of many professionals and their associations), dismantling or rolling back the commitments of the welfare state, the privatization of public enterprises (including social housing), reducing taxes, encouraging entrepreneurial initiative, and creating a favourable business climate to induce a strong inflow of foreign investment (particularly from Japan). There was, she famously declared, 'no such thing as society, only individual men and women'—and, she subsequently added, their families. All forms of social solidarity were to be dissolved in favour of individualism, private property, personal responsibility, and family values. The ideological assault along these lines that flowed from Thatcher's rhetoric was relentless.<sup>17</sup> 'Economics are the method', she said, 'but the object is to change the soul.' And change it she did, though in ways that were by no means comprehensive and complete, let alone free of political costs.

In October 1979 Paul Volcker, chairman of the US Federal Reserve Bank under President Carter, engineered a draconian shift in US monetary policy.<sup>18</sup> The long-standing commitment in the US liberal democratic state to the principles of the New Deal, which meant broadly Keynesian fiscal and monetary policies with full employment as the key objective, was abandoned in favour of a policy designed to quell inflation no matter what the consequences might be for employment. The real rate of interest, which had often been negative during the double-digit inflationary surge of the 1970s, was rendered positive by fiat of the Federal Reserve (Figure 1.5). The nominal rate of interest was raised overnight and, after a few ups and downs, by July 1981 stood close to 20 per cent. Thus began 'a long deep recession that would empty factories and break unions in the US and drive debtor countries to the brink of insolvency, beginning the long era of structural adjustment'.<sup>19</sup> This, Volcker argued, was the only way out of the grumbling crisis of stagflation that had characterized the US and much of the global economy throughout the 1970s.

The Volcker shock, as it has since come to be known, has to be

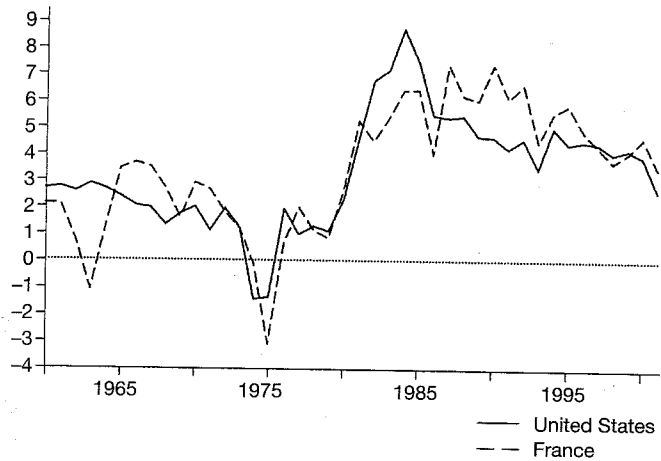


Figure 1.5 The 'Volcker shock': movements in the real rate of interest, US and France, 1960–2001  
 Source: Duménil and Lévy, *Capital Resurgent*.

interpreted as a necessary but not sufficient condition for neo-liberalization. Some central banks had long emphasized anti-inflationary fiscal responsibility and adopted policies that were closer to monetarism than to Keynesian orthodoxy. In the West German case this derived from historical memories of the runaway inflation that had destroyed the Weimar Republic in the 1920s (setting the stage for the rise of fascism) and the equally dangerous inflation that occurred at the end of the Second World War. The IMF had long set itself against excessive debt creation and urged, if not mandated, fiscal restraints and budgetary austerity on client states. But in all these cases this monetarism was paralleled by acceptance of strong union power and a political commitment to build a strong welfare state. The turn to neoliberalism thus depended not only on adopting monetarism but on the unfolding of government policies in many other arenas.

Ronald Reagan's victory over Carter in 1980 proved crucial, even though Carter had shifted uneasily towards deregulation (of airlines and trucking) as a partial solution to the crisis of stagflation. Reagan's advisers were convinced that Volcker's monetarist

'medicine' for a sick and stagnant economy was right on target. Volcker was supported in and reappointed to his position as chair of the Federal Reserve. The Reagan administration then provided the requisite political backing through further deregulation, tax cuts, budget cuts, and attacks on trade union and professional power. Reagan ~~faced down PATCO, the air traffic controllers' union, in a lengthy and bitter strike in 1981.~~ This signalled an all-out assault on the powers of organized labour at the very moment when the Volcker-inspired recession was generating high levels of unemployment (10 per cent or more). But PATCO was more than an ordinary union: it was a white-collar union which had the character of a skilled professional association. It was, therefore, an icon of middle-class rather than working-class unionism. The effect on the condition of labour across the board was dramatic—perhaps best captured by the fact that the Federal minimum wage, which stood on a par with the poverty level in 1980, had fallen to 30 per cent below that level by 1990. The long decline in real wage levels then began in earnest.

Reagan's appointments to positions of power on issues such as environmental regulation, occupational safety, and health, took the

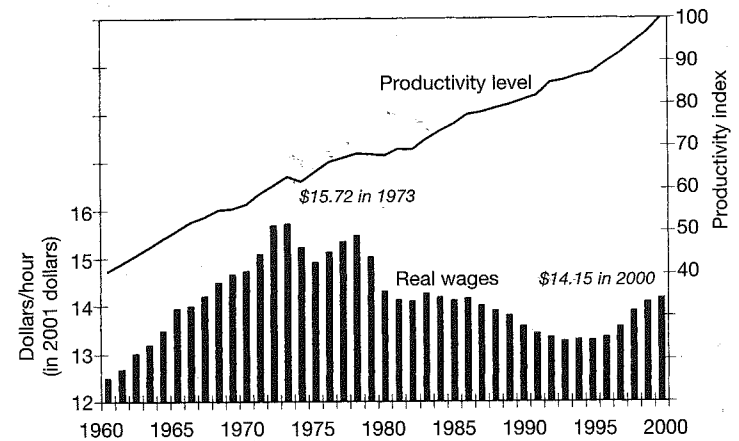


Figure 1.6 The attack on labour: real wages and productivity in the US, 1960–2000  
 Source: Pollin, *Contours of Descent*.

campaign against big government to ever higher levels. The deregulation of everything from airlines and telecommunications to finance opened up new zones of untrammelled market freedoms for powerful corporate interests. Tax breaks on investment effectively subsidized the movement of capital away from the unionized north-east and midwest and into the non-union and weakly regulated south and west. Finance capital increasingly looked abroad for higher rates of return. Deindustrialization at home and moves to take production abroad became much more common. The market, depicted ideologically as the way to foster competition and innovation, became a vehicle for the consolidation of monopoly power. Corporate taxes were reduced dramatically, and the top personal tax rate was reduced from 70 to 28 per cent in what was billed as 'the largest tax cut in history' (Figure 1.7).

And so began the momentous shift towards greater social inequality and the restoration of economic power to the upper class.

There was, however, one other concomitant shift that also impelled the movement towards neoliberalization during the

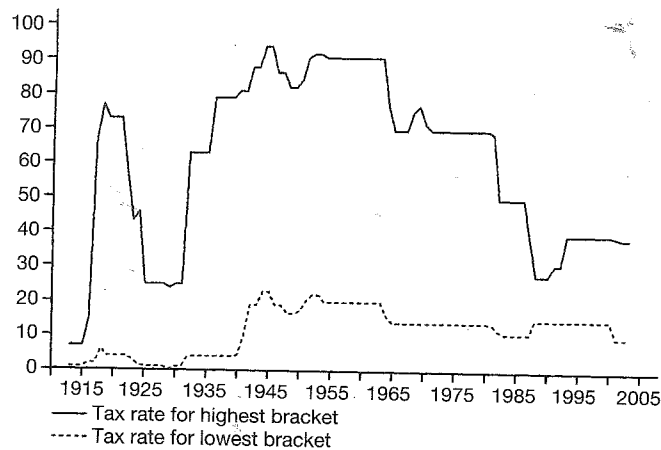


Figure 1.7 The tax revolt of the upper class: US tax rates for higher and lower brackets, 1913–2003

Source: Duménil and Lévy, 'Neoliberal Income Trends'.

1970s. The OPEC oil price hike that came with the oil embargo of 1973 placed vast amounts of financial power at the disposal of the oil-producing states such as Saudi Arabia, Kuwait, and Abu Dhabi. We now know from British intelligence reports that the US was actively preparing to invade these countries in 1973 in order to restore the flow of oil and bring down oil prices. We also know that the Saudis agreed at that time, presumably under military pressure if not open threat from the US, to recycle all of their petrodollars through the New York investment banks.<sup>20</sup> The latter suddenly found themselves in command of massive funds for which they needed to find profitable outlets. The options within the US, given the depressed economic conditions and low rates of return in the mid-1970s, were not good. More profitable opportunities had to be sought out abroad. Governments seemed the safest bet because, as Walter Wriston, head of Citibank, famously put it, governments can't move or disappear. And many governments in the developing world, hitherto starved of funds, were anxious enough to borrow. For this to occur required, however, open entry and reasonably secure conditions for lending. The New York investment banks looked to the US imperial tradition both to prise open new investment opportunities and to protect their foreign operations.

The US imperial tradition had been long in the making, and to great degree defined itself against the imperial traditions of Britain, France, Holland, and other European powers.<sup>21</sup> While the US had toyed with colonial conquest at the end of the nineteenth century, it evolved a more open system of imperialism without colonies during the twentieth century. The paradigm case was worked out in Nicaragua in the 1920s and 1930s, when US marines were deployed to protect US interests but found themselves embroiled in a lengthy and difficult guerrilla insurgency led by Sandino. The answer was to find a local strongman—in this case Somoza—and to provide economic and military assistance to him and his family and immediate allies so that they could repress or buy off opposition and accumulate considerable wealth and power for themselves. In return they would always keep their country open to the operations of US capital and support, and if necessary promote US interests, both in the country and in the region (in the Nicaraguan case, Central America) as a whole. This was the model

that was deployed after the Second World War during the phase of global decolonization imposed upon the European powers at US insistence. For example, the CIA engineered the coup that overthrew the democratically elected Mosaddeq government in Iran in 1953 and installed the Shah of Iran, who gave the oil contracts to US companies (and did not return the assets to the British companies that Mossadeq had nationalized). The Shah also became one of the key guardians of US interests in the Middle Eastern oil region.

In the post-war period, much of the non-communist world was opened up to US domination by tactics of this sort. This became the method of choice to fight off the threat of communist insurgencies and revolution, entailing an anti-democratic (and even more emphatically anti-populist and anti-socialist/communist) strategy on the part of the US that put the US more and more in alliance with repressive military dictatorships and authoritarian regimes (most spectacularly, of course, throughout Latin America). The stories told in John Perkins's *Confessions of an Economic Hit Man* are full of the ugly and unsavoury details of how this was all too often done. US interests consequently became more rather than less vulnerable in the struggle against international communism. While the consent of local ruling elites could be purchased easily enough, the need to coerce oppositional or social democratic movements (such as Allende's in Chile) associated the US with a long history of largely covert violence against popular movements throughout much of the developing world.

It was in this context that the surplus funds being recycled through the New York investment banks were dispersed throughout the world. Before 1973, most US foreign investment was of the direct sort, mainly concerned with the exploitation of raw material resources (oil, minerals, raw materials, agricultural products) or the cultivation of specific markets (telecommunications, automobiles, etc.) in Europe and Latin America. The New York investment banks had always been active internationally, but after 1973 they became even more so, though now far more focused on lending capital to foreign governments.<sup>22</sup> This required the liberalization of international credit and financial markets, and the US government began actively to promote and support this strategy

globally during the 1970s. Hungry for credit, developing countries were encouraged to borrow heavily, though at rates that were advantageous to the New York bankers.<sup>23</sup> Since the loans were designated in US dollars, however, any modest, let alone precipitous, rise in US interest rates could easily push vulnerable countries into default. The New York investment banks would then be exposed to serious losses.

The first major test case of this came in the wake of the Volcker shock that drove Mexico into default in 1982–4. The Reagan administration, which had seriously thought of withdrawing support for the IMF in its first year in office, found a way to put together the powers of the US Treasury and the IMF to resolve the difficulty by rolling over the debt, but did so in return for neoliberal reforms. This treatment became standard after what Stiglitz refers to as a 'purge' of all Keynesian influences from the IMF in 1982. The IMF and the World Bank thereafter became centres for the propagation and enforcement of 'free market fundamentalism' and neoliberal orthodoxy. In return for debt rescheduling, indebted countries were required to implement institutional reforms, such as cuts in welfare expenditures, more flexible labour market laws, and privatization. Thus was 'structural adjustment' invented. Mexico was one of the first states drawn into what was going to become a growing column of neoliberal state apparatuses worldwide.<sup>24</sup>

What the Mexico case demonstrated, however, was a key difference between liberal and neoliberal practice: under the former, lenders take the losses that arise from bad investment decisions, while under the latter the borrowers are forced by state and international powers to take on board the cost of debt repayment no matter what the consequences for the livelihood and well-being of the local population. If this required the surrender of assets to foreign companies at fire-sale prices, then so be it. This, it turns out, is not consistent with neoliberal theory. One effect, as Duménil and Lévy show, was to permit US owners of capital to extract high rates of return from the rest of the world during the 1980s and 1990s (Figures 1.8 and 1.9).<sup>25</sup> The restoration of power to an economic elite or upper class in the US and elsewhere in the advanced capitalist countries drew heavily on surpluses extracted

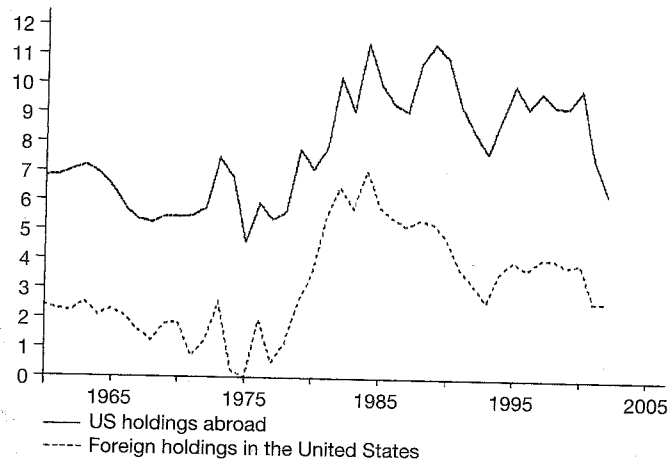


Figure 1.8 Extracting surpluses from abroad: rates of return on foreign and domestic investments in the US, 1960–2002

Source: Duménil and Lévy, 'The Economics of US Imperialism'.

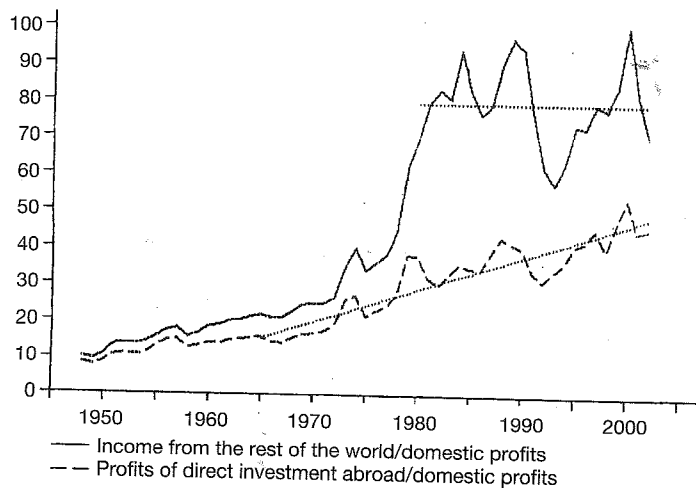


Figure 1.9 The flow of tribute into the US: profits and capital income from the rest of the world in relation to domestic profits

Source: Duménil and Lévy, 'Neoliberal Dynamics: Towards A New Phase?'.

from the rest of the world through international flows and structural adjustment practices.

### The Meaning of Class Power

But what exactly is meant here by 'class'? This is always a somewhat shadowy (some would even say dubious) concept. Neoliberalization has, in any case, entailed its redefinition. This poses a problem. If neoliberalization has been a vehicle for the restoration of class power, then we should be able to identify the class forces behind it and those that have benefited from it. But this is difficult to do when 'class' is not a stable social configuration. In some cases 'traditional' strata have managed to hang on to a consistent power base (often organized through family and kinship). But in other instances neoliberalization has been accompanied by a reconfiguration of what constitutes an upper class. Margaret Thatcher, for example, attacked some of the entrenched forms of class power in Britain. She went against the aristocratic tradition that dominated in the military, the judiciary, and the financial elite in the City of London and many segments of industry, and sided with the brash entrepreneurs and the nouveaux riches. She supported, and was usually supported by, this new class of entrepreneurs (such as Richard Branson, Lord Hanson, and George Soros). The traditional wing of her own Conservative Party was appalled. In the US, the rising power and significance of the financiers and the CEOs of large corporations, as well as the immense burst of activity in wholly new sectors (such as computing and the internet, media, and retailing) changed the locus of upper-class economic power significantly. While neoliberalization may have been about the restoration of class power, it has not necessarily meant the restoration of economic power to the same people.

But, as the contrasting cases of the US and Britain illustrate, 'class' means different things in different places, and in some instances (for example in the US) it is often held to have no meaning at all. In addition there have been strong currents of differentiation in terms of class identity formation and re-formation in different parts of the world. In Indonesia, Malaysia, and the Philippines, for example, economic power became strongly

concentrated among a few ethnic-minority Chinese, and the mode of acquisition of that economic power was quite different from that in Australia or the US (it was heavily concentrated in trading activities and entailed the cornering of markets<sup>26</sup>). And the rise of the seven oligarchs in Russia derived from the quite unique configuration of circumstances that held in the wake of the collapse of the Soviet Union.

Nevertheless, there are some general trends that can be identified. The first is for the privileges of ownership and management of capitalist enterprises—traditionally separated—to fuse by paying CEOs (managers) in stock options (ownership titles). Stock values rather than production then become the guiding light of economic activity and, as later became apparent with the collapse of companies such as Enron, the speculative temptations that resulted from this could become overwhelming. The second trend has been to dramatically reduce the historical gap between money capital earning dividends and interest, on the one hand, and production, manufacturing, or merchant capital looking to gain profits on the other. This separation had at various times in the past produced conflicts between financiers, producers, and merchants. In Britain, for example, government policy in the 1960s catered primarily to the requirements of the financiers in the City of London, often to the detriment of domestic manufacturing, and in the 1960s conflicts in the US between financiers and manufacturing corporations had often surfaced. During the 1970s much of this conflict either disappeared or took new forms. The large corporations became more and more financial in their orientation, even when, as in the automobile sector, they were engaging in production. Since 1980 or so it has not been uncommon for corporations to report losses in production offset by gains from financial operations (everything from credit and insurance operations to speculating in volatile currency and futures markets). Mergers across sectors conjoined production, merchanting, real estate, and financial interests in new ways to produce diversified conglomerates. When US Steel changed its name to USX (purchasing strong stakes in insurance) the chairman of the board, James Roderick, replied to the question 'What is X?' with the simple answer 'X stands for money.'<sup>27</sup>

All of this connected to the strong burst in activity and power within the world of finance. Increasingly freed from the regulatory constraints and barriers that had hitherto confined its field of action, financial activity could flourish as never before, eventually everywhere. A wave of innovations occurred in financial services to produce not only far more sophisticated global interconnections but also new kinds of financial markets based on securitization, derivatives, and all manner of futures trading. Neoliberalization has meant, in short, the financialization of everything. This deepened the hold of finance over all other areas of the economy, as well as over the state apparatus and, as Randy Martin points out, daily life.<sup>28</sup> It also introduced an accelerating volatility into global exchange relations. There was unquestionably a power shift away from production to the world of finance. Gains in manufacturing capacity no longer necessarily meant rising per capita incomes, but concentration on financial services certainly did. For this reason, the support of financial institutions and the integrity of the financial system became the central concern of the collectivity of neoliberal states (such as the group comprising the world's richest countries known as the G7). In the event of a conflict between Main Street and Wall Street, the latter was to be favoured. The real possibility then arises that while Wall Street does well the rest of the US (as well as the rest of the world) does badly. And for several years, particularly during the 1990s, this is exactly what happened. While the slogan was often advanced in the 1960s that what was good for General Motors was good for the US, this had changed by the 1990s into the slogan that what is good for Wall Street is all that matters.

One substantial core of rising class power under neoliberalism lies, therefore, with the CEOs, the key operators on corporate boards, and the leaders in the financial, legal, and technical apparatuses that surround this inner sanctum of capitalist activity.<sup>29</sup> The power of the actual owners of capital, the stockholders, has, however, been somewhat diminished unless they can gain a sufficiently large voting interest to affect corporate policy. Shareholders have on occasion been bilked of millions by the operations of the CEOs and their financial advisers. Speculative gains have also made it possible to amass enormous fortunes within a

very short period of time (examples are Warren Buffett and George Soros).

But it would be wrong to confine the notion of the upper class to this group alone. The opening up of entrepreneurial opportunities, as well as new structures in trading relations, have allowed substantially new processes of class formation to emerge. Fast fortunes were made in new sectors of the economy such as biotechnology and information technologies (for example by Bill Gates and Paul Allen). New market relations opened up all manner of possibilities to buy cheap and sell dear, if not to actually corner markets in such a way as to build fortunes that can either extend horizontally (as in the case of Rupert Murdoch's sprawling global media empire) or be diversified into all manner of businesses, extending backwards into resource extraction and production and forwards from a trading base into financial services, real-estate development, and retailing. In this it frequently happened that a privileged relationship to state power also played a key role. The two businessmen who were closest to Suharto in Indonesia, for example, both fed the Suharto family financial interests but also fed off their connections to that state apparatus to become immensely rich. By 1997 one of them, the Salim Group, was 'reportedly the world's largest Chinese-owned conglomerate, with \$20 billion in assets and some five hundred companies'. Starting with a relatively small investment company, Carlos Slim gained control over the newly privatized telecommunications system in Mexico and quickly parlayed that into a huge conglomerate empire that controls not only a huge slice of the Mexican economy but has sprawling interests in US retailing (Circuit City and Barnes and Noble) as well as throughout Latin America.<sup>30</sup> In the US, the Walton family has become immensely rich as Wal-Mart has surged into a dominant position in US retailing but with integration into Chinese production lines as well as retail stores worldwide. While there are obvious links between these sorts of activities and the world of finance, the incredible ability not only to amass large personal fortunes but to exercise a controlling power over large segments of the economy confers on these few individuals immense economic power to influence political processes. Small wonder that the net worth of the 358 richest people in 1996 was 'equal to the combined income

of the poorest 45 per cent of the world's population—2.3 billion people'. Worse still, 'the world's 200 richest people more than doubled their net worth in the four years to 1998, to more than \$1 trillion. The assets of the top three billionaires [were by then] more than the combined GNP of all least developed countries and their 600 million people.'<sup>31</sup>

There is, however, one further conundrum to be considered in this process of radical reconfiguration of class relations. The question arises, and has been much debated, as to whether this new class configuration should be considered as transnational or whether it can be still understood as something based exclusively within the parameters of the nation-state.<sup>32</sup> My own position is this. The case that the ruling class anywhere has ever confined its operations and defined its loyalties to any one nation-state has historically been much overstated. It never did make much sense to speak of a distinctively US versus British or French or German or Korean capitalist class. The international links were always important, particularly through colonial and neocolonial activities, but also through transnational connections that go back to the nineteenth century if not before. But there has undoubtedly been a deepening as well as a widening of these transnational connections during the phase of neoliberal globalization, and it is vital that these connectivities be acknowledged. This does not mean, however, that the leading individuals within this class do not attach themselves to specific state apparatuses for both the advantages and the protections that this affords them. *Where* they specifically attach themselves is important, but is no more stable than the capitalist activity they pursue. Rupert Murdoch may begin in Australia then concentrate on Britain before finally taking up citizenship (doubtless on an accelerated schedule) in the US. He is not above or outside particular state powers, but by the same token he wields considerable influence via his media interests in politics in Britain, the US, and Australia. All 247 of the supposedly independent editors of his newspapers worldwide supported the US invasion of Iraq. As a form of shorthand, however, it still makes sense to speak about US or British or Korean capitalist class interests because corporate interests like Murdoch's or those of Carlos Slim or the Salim group both feed



off and nurture specific state apparatuses. Each can and typically does, however, exert class power in more than one state simultaneously.

While this disparate group of individuals embedded in the corporate, financial, trading, and developer worlds do not necessarily conspire as a class, and while there may be frequent tensions between them, they nevertheless possess a certain accordance of interests that generally recognizes the advantages (and now some of the dangers) to be derived from neoliberalization. They also possess, through organizations like the World Economic Forum at Davos, means of exchanging ideas and of consorting and consulting with political leaders. They exercise immense influence over global affairs and possess a freedom of action that no ordinary citizen possesses.

### Freedom's Prospect

This history of neoliberalization and class formation, and the proliferating acceptance of the ideas of the Mont Pelerin Society as the ruling ideas of the time, makes for interesting reading when placed against the background of counter-arguments laid out by Karl Polanyi in 1944 (shortly before the Mont Pelerin Society was established). In a complex society, he pointed out, the meaning of freedom becomes as contradictory and as fraught as its incitements to action are compelling. There are, he noted, two kinds of freedom, one good and the other bad. Among the latter he listed 'the freedom to exploit one's fellows, or the freedom to make inordinate gains without commensurable service to the community, the freedom to keep technological inventions from being used for public benefit, or the freedom to profit from public calamities secretly engineered for private advantage'. But, Polanyi continued, 'the market economy under which these freedoms thrive also produced freedoms we prize highly. Freedom of conscience, freedom of speech, freedom of meeting, freedom of association, freedom to choose one's own job'. While we may 'cherish these freedoms for their own sake',—and, surely, many of us still do—they were to a large extent 'by-products of the same economy that was also responsible for the evil freedoms'.<sup>33</sup> Polanyi's answer to this duality makes strange reading given the current hegemony of neoliberal thinking:

The passing of [the] market economy can become the beginning of an era of unprecedented freedom. Juridical and actual freedom can be made wider and more general than ever before; regulation and control can achieve freedom not only for the few, but for all. Freedom not as an appurtenance of privilege, tainted at the source, but as a prescriptive right extending far beyond the narrow confines of the political sphere into the intimate organization of society itself. Thus will old freedoms and civic rights be added to the fund of new freedoms generated by the leisure and security that industrial society offers to all. Such a society can afford to be both just and free.<sup>34</sup>

Unfortunately, Polanyi noted, the passage to such a future is blocked by the 'moral obstacle' of liberal utopianism (and more than once he cites Hayek as an exemplar of that tradition):

Planning and control are being attacked as a denial of freedom. Free enterprise and private ownership are declared to be essentials of freedom. No society built on other foundations is said to deserve to be called free. The freedom that regulation creates is denounced as unfreedom; the justice, liberty and welfare it offers are decried as a camouflage of slavery.<sup>35</sup>

The idea of freedom 'thus degenerates into a mere advocacy of free enterprise', which means 'the fullness of freedom for those whose income, leisure and security need no enhancing, and a mere pittance of liberty for the people, who may in vain attempt to make use of their democratic rights to gain shelter from the power of the owners of property'. But if, as is always the case, 'no society is possible in which power and compulsion are absent, nor a world in which force has no function', then the only way this liberal utopian vision could be sustained is by force, violence, and authoritarianism. Liberal or neoliberal utopianism is doomed, in Polanyi's view, to be frustrated by authoritarianism, or even outright fascism.<sup>36</sup> The good freedoms are lost, the bad ones take over.

Polanyi's diagnosis appears peculiarly appropriate to our contemporary condition. It provides a powerful vantage point from which to understand what President Bush intends when he asserts that 'as the greatest power on earth we [the US] have an obligation to help the spread of freedom'. It helps explain why neoliberalism

has turned so authoritarian, forceful, and anti-democratic at the very moment when 'humanity holds in its hands the opportunity to offer freedom's triumph over all its age-old foes'.<sup>37</sup> It makes us focus on how so many corporations have profited from withholding the benefits of their technologies (such as AIDS drugs) from the public sphere, as well as from the calamities of war (as in the case of Halliburton), famine, and environmental disaster. It raises the worry as to whether or not many of these calamities or near calamities (arms races and the need to confront both real and imagined enemies) have been secretly engineered for corporate advantage. And it makes it all too clear why those of wealth and power so avidly support certain conceptions of rights and freedoms while seeking to persuade us of their universality and goodness. Thirty years of neoliberal freedoms have, after all, not only restored power to a narrowly defined capitalist class. They have also produced immense concentrations of corporate power in energy, the media, pharmaceuticals, transportation, and even retailing (for example Wal-Mart). The freedom of the market that Bush proclaims as the high point of human aspiration turns out to be nothing more than the convenient means to spread corporate monopoly power and Coca Cola everywhere without constraint. With disproportionate influence over the media and the political process this class (with Rupert Murdoch and Fox News in the lead) has both the incentive and the power to persuade us that we are all better off under a neoliberal regime of freedoms. For the elite, living comfortably in their gilded ghettos, the world must indeed seem a better place. As Polanyi might have put it, neoliberalism confers rights and freedoms on those 'whose income, leisure and security need no enhancing', leaving a pittance for the rest of us. How is it, then, that 'the rest of us' have so easily acquiesced in this state of affairs?

## The Construction of Consent

How was neoliberalization accomplished, and by whom? The answer in countries such as Chile and Argentina in the 1970s was as simple as it was swift, brutal, and sure: a military coup backed by the traditional upper classes (as well as by the US government), followed by the fierce repression of all solidarities created within the labour and urban social movements which had so threatened their power. But the neoliberal revolution usually attributed to Thatcher and Reagan after 1979 had to be accomplished by democratic means. For a shift of this magnitude to occur required the prior construction of political consent across a sufficiently large spectrum of the population to win elections. What Gramsci calls 'common sense' (defined as 'the sense held in common') typically grounds consent. Common sense is constructed out of long-standing practices of cultural socialization often rooted deep in regional or national traditions. It is not the same as the 'good sense' that can be constructed out of critical engagement with the issues of the day. Common sense can, therefore, be profoundly misleading, obfuscating or disguising real problems under cultural prejudices.<sup>1</sup> Cultural and traditional values (such as belief in God and country or views on the position of women in society) and fears (of communists, immigrants, strangers, or 'others') can be mobilized to mask other realities. Political slogans can be invoked that mask specific strategies beneath vague rhetorical devices. The word 'freedom' resonates so widely within the common-sense understanding of Americans that it becomes 'a button that elites can press to open the door to the masses' to justify almost anything.<sup>2</sup> Thus could Bush retrospectively justify the Iraq war. Gramsci therefore concluded that political questions become 'insoluble' when 'disguised as cultural ones'.<sup>3</sup> In seeking to understand the

lobbyists and the revolving door between the state and corporations that ensure that the US Congress (as well as state legislatures in the US) does the bidding of moneyed interests and moneyed interests alone.

To bring back the demands for democratic governance and for economic, political, and cultural equality and justice is not to suggest a return to some golden age. The meanings in each instance have to be reinvented to deal with contemporary conditions and potentialities. Democracy in ancient Athens has little to do with the meanings we must invest that term with today in circumstances as diverse as São Paulo, Johannesburg, Shanghai, Manila, San Francisco, Leeds, Stockholm, and Lagos. But the stunning point here is that right across the globe, from China, Brazil, Argentina, Taiwan, and Korea to South Africa, Iran, India, and Egypt, in the struggling nations of eastern Europe as well as the heartlands of contemporary capitalism, there are groups and social movements in motion that are rallying to reforms expressive of some version of democratic values.<sup>24</sup>

US leaders have, with considerable domestic public support, projected upon the world the idea that American neoliberal values of freedom are universal and supreme, and that such values are to die for. The world is in a position to reject that imperialist gesture and refract back into the heartland of neoliberal and neoconservative capitalism a completely different set of values: those of an open democracy dedicated to the achievement of social equality coupled with economic, political, and cultural justice. Roosevelt's arguments are one place to start. Within the US an alliance has to be built to regain popular control of the state apparatus and to thereby advance the deepening rather than the evisceration of democratic practices and values under the juggernaut of market power.

There is a far, far nobler prospect of freedom to be won than that which neoliberalism preaches. There is a far, far worthier system of governance to be constructed than that which neoconservatism allows.

## Notes

### Introduction

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