THE NEOLIBERAL ERA:
IDEOLOGY, POLICY, AND SOCIAL EFFECTS

Peter Evans and William H. Sewell, Jr.

Prepared for *Social Resilience in the Neo-Liberal Era*
edited by Peter Hall and Michele Lamont

In the final three decades of the twentieth century, the world’s political economic framework underwent a far-reaching transformation from a state-centric to a neoliberal form (Sewell 2005). In the years following World War II, economies in all areas of the world had been governed by state-centered regulatory regimes. In the wealthy countries of North America, Western Europe, Japan, and the Antipodes, economies were based on free markets and private property, but they were carefully steered and regulated by democratic Keynesian welfare states. In the communist countries, almost all economic activity took place in authoritarian state institutions. And in most of the major countries of Africa, Asia, and Latin America, governments imposed ambitious schemes of state-led development.

Over the course of the 1970s, state-led regulatory regimes entered into crisis. By the 1990s, the communist regimes had fallen or had been thoroughly transformed from within by introducing markets and privatizing production. The advanced capitalist
countries had dismantled or watered down their regulatory states – by privatizing publicly owned enterprises, lifting capital controls, deregulating markets, and, more selectively, paring back welfare guarantees. And the vast majority of developing countries in Asia, Africa, and Latin America had abandoned important elements of their nationalist development strategies and opened their borders to global flows of capital and goods – some on their own volition and others under the coercive urging of the International Monetary Fund and the World Bank. All these countries had become part of a rapidly integrating world market, regulated by global rules administered by economic governance institutions like the World Trade Organization and disciplined by instantaneous global exchanges for currencies, securities, and bonds.

This new regulatory framework of the world economy is commonly referred to as “neoliberalism.” The term neoliberalism seems to us apt. As in classical economic liberalism, the new economic order is envisioned as primarily governed, both within and between states, by market relations. But this is a “neo” or revised liberalism because it followed a long period during which markets had been highly constrained by states and because economic liberalism had to be altered to fit a landscape of states, firms, and economic actors very different from that of the nineteenth-century world in which liberalism had initially flourished. The new economic landscape was populated by giant firms with monopoly power and the states, at least in the industrialized West, were democratic states with a commitment to social welfare rather than absolutist regimes or constitutional monarchies with limited suffrage. Using classic liberal formulas to construct political programs and policies in a mid-twentieth century political economy had implications that eighteenth or early nineteenth-century liberals could hardly have
foreseen.

To characterize the current era as “neoliberal” or the regulatory regime of the current world economy as “neoliberalism” is, of course, to emphasize the ideological dimension of the transformation. As we see it, the rise of a market-oriented world economic regime over the past three decades is not some inevitable outcome of technological or economic forces – although such forces certainly set limits to the possible outcomes. We believe that the current global order has been importantly shaped by the political and intellectual ascendancy of neoliberal ideas and policy blueprints – as opposed, for example, to Keynesianism or social democracy or communism or nationalist developmentalism, which shaped the diverse political economies of the previous period.

We shall attempt in this paper to clarify the concept of neoliberalism and to sketch the historical process by which neoliberalism rose to ascendancy. But we shall also trace out some of the deviations from full-fledged neoliberal policies that have emerged in various regions of the world – deviations that are common even in states that have adopted a wide range of apparently neoliberal reforms. We will argue that the different political dynamics surrounding neoliberal reforms in different countries has meant that the social effects of neoliberalism are far from uniform.

**What is neoliberalism?**

If neoliberalism is an apt term for the current world economic regime, it is also a troublesome one. Neoliberalism has a wide range of meanings in current discourse and a strong left-leaning political inflection. It is used far more by those who criticize the current economic order than by those who favor it. Indeed, neoliberalism all too often
serves more as an epithet than as an analytically productive concept. We make no pretense to laying down some neutral and “scientific” definition of a concept that is essentially contested and will certainly remain so. But we consider it useful to distinguish four facets of the neoliberal phenomenon: neoliberalism as economic theory, neoliberalism as political ideology, neoliberalism as policy paradigm and neoliberalism as social imaginary. At the same time, we would like to signal certain usages of the term that we regard as unhelpful or misleading.

Neoliberal economic theory stresses the welfare-maximizing consequences of market exchange. It does so with a level of technical finesse and erudition that makes it available mainly to professional economists with the appropriate mathematical skills. The high intellectual quality of this work, attested by numerous Nobel Prizes, has lent considerable luster to neoliberal ideology in general. In addition to these relatively inaccessible academic economic ideas, neoliberalism can, second, denote a much more widely disseminated political ideology that extols the superiority of market allocation of goods and services over public provision, and that favors lowering taxes, disempowering labor unions, suppressing state regulations of economic activity, and cutting public spending, but that also embraces formal democracy and the rule of law. Milton Friedman’s extraordinarily successful popular book *Capitalism and Freedom* (2002 [1962]) is a good example of how the economic arguments of neoliberalism can be translated into popular political ideology. Margaret Thatcher and Ronald Reagan were probably the most gifted purveyors of neoliberalism as political ideology. “Market fundamentalism” (Stiglitz 2002; Somers 2008) and “the personal responsibility crusade” (Hacker 2006) are efforts to describe its content.
Neoliberalism in the sense of a policy paradigm is a set of interrelated policies intended, generally speaking, to increase the role of markets in regulating economic life – policies that range from privatization of public enterprises, to reduced controls on capital movements, to so-called shock therapy, to global free-trade agreements, to deregulation of credit or labor markets, to IMF conditionalities, to new regimes of intellectual property. Neoliberalism as a policy paradigm is probably best symbolized by the much-publicized “Washington Consensus” of the late 1980s and early 1990’s\(^1\). It is important to recognize that many such policies have been adopted by states that maintain a certain distance from neoliberalism as political ideology. Countries like Sweden, France, and Germany, which have prided themselves on maintaining generous and comprehensive welfare states, have nevertheless adopted a whole range of measures that fit the neoliberal policy paradigm. One of our tasks in this paper will be to sort out the adoption of policies in the broad neoliberal mode – which have in effect become the price of admission to the contemporary global capitalist marketplace – from acceptance of a full-scale neoliberal ideology. It is above all the very widespread adoption of a neoliberal policy paradigm by states all over the world that emboldens us to speak of the past few decades as a “neoliberal era.”

Neoliberalism as theory, ideology, and policy has also had diffuse but powerful effects on the global social imaginary. The neoliberal social imaginary extols entrepreneurship, self-reliance, and sturdy individualism; equates untrammeled pursuit of self-interest and consumer satisfaction with human freedom; glorifies personal wealth;

\(^1\) The term “Washington Consensus, ususally credited to John Williamson (1990) refers to the set of policy prescriptions considered to be “best practice” for developing economies by the “Washington” institutions – the World Bank and the International Monetary Fund. It was subsequently applied to a range of neoliberal
sees volunteerism as the appropriate way to solve social problems; and associates government programs with inefficiency, corruption and incompetence. The neoliberal social imaginary shapes individual goals and behavior while simultaneously making neoliberal political ideology and policy paradigms seem “natural” (see Somers, 2008). The prevalence of this social imaginary, even among those whose welfare has been undercut by neoliberal policies, helps reinforce the political power of neoliberalism as ideology and policy paradigm.

Neoliberalism defined as economic theory, political ideology, policy paradigm, and social imaginary has also had consequences for the political economy of the neoliberal era. While the actually existing structures of political and economic power during the neoliberal era are often quite distant from what neoliberal theory and ideology would prescribe, it is nevertheless true that their evolution over the past three decades cannot be understood without taking the effects of neoliberal theory and ideology into account.

In addition to assessing the effects of neoliberalism, in its several senses, on contemporary societies, we also wish to deny certain effects that are frequently alleged. Too often, phenomena whose etiologies are only tangentially related to the spread of neoliberal ideas or policies are attributed to neoliberalism, usually in order to denounce them. It is important to recognize that political agendas or policies drawing on elements of classical liberal ideology are not necessarily consequences of neoliberalism. After all, most modern emancipatory ideologies contain important elements derived from liberal thought. Hence, political and intellectual movements making prominent use of terms like

prescriptions beyond Williamson’s original formulation becoming an epithet in the same way that neoliberalism became an epithet (see Williamson, 1999).
“individualism,” “freedom,” “human rights,” and “democracy” should not automatically be tarred with the brush of neoliberalism, since they are at least as likely to be derived from a broad liberal heritage as from neoliberalism per se.

Second, we must resist attributing all the distinctive socio-economic trends of contemporary global capitalism to neoliberalism. It is certainly the case that processes such as the expansion of world trade, the financialization of economic activity, globalized outsourcing, the rise of flexible production regimes, or worldwide currency arbitrage are consonant with neoliberal ideology and policy. Indeed, when neoliberalism is used in public discourse, it is often this whole socio-economic package that is being invoked. But we should be careful not to presume that these trends and processes are causal effects of neoliberal ideology or policy, since some may have quite other causes – for example, changes in international competitiveness or in the technology of communications and transportation. In fact, some of them actually predate the rise of neoliberalism and may be as much causes of neoliberalism as policy or ideology as they are effects. Neoliberalism and the major trends of contemporary global capitalism are certainly intertwined, but it is important to sort out the mutual spiral of cause and effect between ideology, policy, and economic trends rather than attributing the whole to an amorphously defined “neoliberalism.”

The rise of a neoliberal ideology

The beginnings of a neoliberal ideology go back to before World War II. Neoliberalism initially took form as a counter-movement to the increasing sympathy for state regulation of economic life within the economics profession in the 1930s. By
contrast, the early neoliberal economists (or, as they generally called themselves, simply “liberals”) retained a commitment to the nineteenth-century tradition of classical liberalism. Dominant during the period of British hegemony during the middle decades of the nineteenth century, economic liberalism was already on the wane as a policy paradigm by the late nineteenth century, when many of the leading capitalist states erected high tariff barriers and when massive cartelization of industry threatened to undermine the domestic basis of liberal competition. From World War I forward, states assumed a growing role in economies, a role enhanced in the 1930s by attempts to solve the catastrophic economic crisis of the Great Depression. Between the wars, state control over the economy took a wide range of forms: Soviet communism, The American New Deal, the French Popular Front reforms, Swedish social democracy, and a wide variety of Fascist regimes. The consensus among economists, even in the previous liberal stronghold of Britain, had moved very far from the ideals of classical liberalism by the 1930s. F. A. Hayek, one of neoliberalism’s founding fathers, who taught at the London School of Economics in the 1930s and 1940s, wrote *The Road to Serfdom* because he was convinced that his colleagues “completely misconceived” the nature of the communist and fascist economic experiments on the continent and that it was “obvious that England herself was likely to experiment after the war” with socialistic policies of some description (2007 [1944], 39-40). He was right. Indeed, William Beveridge, Hayek’s former director at LSE, was the author of the famous report that launched the British postwar welfare state (Caldwell 2007, 13). It is this rejection of 19th century market ideology that Karl Polanyi (2001[1944]) referred to as the “great transformation” of the mid-20th century.
The precise form of these postwar policies varied considerably across the industrialized Western democracies, but all established expansive welfare regimes and strong state regulation of the economy. Some nationalized important industries, but all retained private ownership and free enterprise as the principal form of economic activity. Public policy and public institutions protected citizens from the risks and volatility of markets while supplying welfare-enhancing collective goods – such as housing, health care, old-age pensions, or unemployment insurance – that were otherwise undersupplied by markets. In the ideal type of this “welfare capitalism,” the market was no longer “self-regulating” but was aligned with social priorities by means of state action. In Polanyian terms, markets were “embedded” in a set of politically defined social priorities implemented by the state [cf. Polanyi, 2001[1944]). These embedded liberal regimes were based on a class compromise between capital and labor – indeed, on a wider democratic pluralism that afforded clout to a whole range of social and economic interests. In all advanced capitalist countries, unions were legally recognized and labor relations regulated by the state – although the particular form of labor relations differed considerably from one country to another.

As Ruggie (1982) has pointed out, domestic social protection was a key element in making possible a revival of the open international trade that industrialized countries had abandoned during the Great Depression. Welfare capitalism was combined with a new international economic regime agreed to at Bretton Woods at the end of World War II, which notably included a pegged-rate currency regime. This international regime was enforced largely by the unchallenged political and economic hegemony of the United States, a hegemony much enhanced by a war that had destroyed much of the other
belligerents’ economic infrastructure but had greatly increased American productive capacity and financial power. The outbreak of the Cold War between the capitalist and communist blocks at the end of the 1940s provided a strong continuing incentive for coordination of economic policies within the capitalist block. In these political circumstances, the potential appeal of communism to the working class – an appeal made very real by the continuing electoral strength of mass Communist Parties in Italy and France – enhanced capitalists’ preference for peaceful labor relations and their willingness to share the benefits of prosperity with their workforces.

Mid-twentieth century welfare capitalism had a long and remarkably prosperous run. The extended boom from 1947 through 1973 has been dubbed the “Golden Age” of capitalism (Hobsbawm 1994). The class compromise politics of the Golden Age fostered increases in productivity by supporting social infrastructure like education and health delivery as well as investment in physical infrastructure and research and development. It was a period of economic growth unparalleled in the history of capitalism, and of high profits, rising wages, and rising levels of welfare benefits. The more equal income distribution that resulted from the post-war political balance of the Golden Age also promoted economic growth by fostering unprecedented increases in the demand for manufactured goods and housing. This was the period that introduced the advanced countries of the world to high mass consumption – a socioeconomic regime in which ordinary people could afford such consumer goods as automobiles, refrigerators, washing machines, vacuum cleaners, and televisions – a condition achieved before the war solely by the masses in the United States, and that only incompletely. The advanced capitalist countries – the United States, Western Europe, Japan, Canada, Australia, and New
Zeeland – seemed, during this Golden Age, locked into an ever-ascending virtuous spiral of rising productivity, which enabled rising wages, growing demand, high profits, and rising investment, which in turn assured further rises in productivity.

Nor was postwar prosperity confined to the advanced capitalist world. The developing countries of Asia, Africa, and Latin America, many of them recently freed from restrictive colonial economic policies, experienced historically high rates of growth as well, based on strong demand for their products from the advanced countries as well as the beginnings of industrialization internally. In the countries of the Soviet sphere, where the command economies concentrated investment in heavy industry, rates of growth were roughly equal to those in the capitalist countries in the postwar period, although Soviet-sphere citizens experienced nothing like the Western cornucopia of consumer goods. In China the victory of the communists in 1949 ended a decades-long period of civil warfare; economic growth was substantial in spite of disruptions during the disastrous “Great Leap Forward” from 1958 to 1960 and the Cultural Revolution in late 1960s and early 1970s.

In the course of the 1970s, however, the great postwar economic boom finally fizzled out. The very successes of the past two decades, especially in Western Europe and Japan, had resulted in intensified competition and falling profits in many of the leading industries that had initially been dominated by the United States – for example in automobiles, steel, shipbuilding, and home appliances (cf. Brenner, 1998). Inflation pressures increased over the course of the 1960s as wage demands from strong labor movements mounted while profits began to decline. The problem of inflation was particularly severe in the United States, where President Johnson attempted to fund his
Great Society programs at the same time he was escalating the Vietnam War. This eventually threw the international monetary system into disarray, since the system’s stability had depended on responsible American leadership (and on Fort Knox gold, which was rapidly diminishing). Between 1971 and 1973, the Bretton Woods system was bit by bit dismantled and currencies henceforth floated on the international market. Then the Arab oil boycott, following the Yom Kippur War in the autumn of 1973, caused a jump in energy prices, pushing overall inflation across the capitalist world to crisis levels. This led to a stock market crash and a deep recession from late 1973 to 1975.

The economic crisis that began in 1973 was not just another periodic downturn like those of 1958, 1961, or 1970, but a general crisis of capitalism, one that was not resolved until the early 1980s. It featured a decline in heavy industries such as coal mining, steel, and shipbuilding in the advanced capitalist economies, eventually creating permanent “rust belts” in these countries’ former industrial heartlands. Meanwhile, the floating of currencies, the rise of new electronic trading technologies, and recycling of the vast wealth created by high oil prices in the Middle East created new opportunities for financial speculation of all kinds, especially in London’s “City” and on Wall Street. When put together with stagnating industrial production, this speculative activity made finance into the leading “industry” of the US and UK by the mid 1980s. Perhaps the most distinctive mark of the deep capitalist crisis of the 1970s was the phenomenon of “stagflation,” a puzzling and troubling combination of persistently high unemployment and persistently high inflation that seemed immune to the remedies on offer from the then dominant Keynesian economics. The conundrum of stagflation threw the economic policies of the major capitalist states into disarray.
Economic disarray was not confined to the advanced countries. The experiences of different countries in the global South began to diverge sharply in this period. On the one hand, the policies of import substitution faltered in Latin America and failed to gain momentum in Africa. On the other hand, the 1970s saw the emergence of a new form of developmentalist state, one based on subsidizing export industries rather than industries producing for the domestic market. Following in the footsteps of Japan’s earlier developmentalist miracle, the economies of South Korea, Taiwan, Singapore, and Hong Kong, soon dubbed the East Asian “Tigers,” grew rapidly through state-promoted shifts from import-substituting to export-oriented industrialization (see Evans, 1995).

Meanwhile, African and Latin American countries tried to keep their own developmental states afloat by borrowing heavily but at very low real interest rates from the big Wall Street and London banks, which during the 1970s were awash in so called “petrodollars” created by high oil prices and saw little profit to be gained by lending to the stagnating Western economies. It was when interest rates rose sharply in the early 1980s that the debtor countries were thrown into crisis by their suddenly unmanageable debt burdens.

In the communist countries, the 1970s was a decade of palpable stagnation, economically, politically, and in population health. In the Soviet Union, Brezhnev surrounded himself with grey bureaucrats who pursued stability at all costs; meanwhile, the Soviet suppression of the Prague Spring in 1968 had destroyed the hopes for reform in Eastern Europe. The Soviet-type economies limped along until 1989, but no longer seemed a promising model either to the European working class or to the people or politicians of poor countries in the global south.

The late 1960s and the 1970s were also a period of cultural and political crisis, at
least in the advanced capitalist world. Indeed, the cultural and political crisis predated the economic crisis by a half-decade or so. This was a period of much disillusionment with the status quo and of widespread experimentation with new political options and lifestyle choices. The vibrant youth and student movements of the late 1960s mounted a critique of the corporate social order and the bureaucratic state, one that (rather incoherently) combined socialist, egalitarian, bohemian, and libertarian strains. The late 1960s and the 1970s were marked by intensified labor activism, but also by the struggles of minority racial and ethnic groups, women, gays, and lesbians. And it was in this period that a new environmental awareness raised doubts about the desirability – even the possibility – of unlimited economic growth as a socio-political ideal. When the cultural and political crisis was compounded by an economic crisis in the early 1970s, the apparently stable state-centered synthesis of the postwar political and economic world began to come apart at the seams.

It is important to realize that once the more revolutionary hopes of the 1960s movements had evaporated, the individualist and anti-state bias so characteristic of the era provided a fertile ground for a revival of a wide variety of liberal political ideas. Multiculturalism, which originated as a response to struggles for minority group rights, was articulated as a new liberal ideal in the 1970s (see Kymlicka this volume). Meanwhile the obvious stagnation of the communist countries, together with the blatant crushing of the democratic movement in Czechoslovakia and the continuing flow of revelations regarding Stalinist atrocities (e.g. Solzhenitsyn, 1974), caused a widespread revulsion with communism among many former Marxists and socialists, many of whom began to explore liberal alternatives. As Samuel Moyn (2010) has recently argued, it was
also in this period that the utopia of universal human rights – inspired in part by the revulsion against Stalinism – became a major international cause and movement. This era of crisis for the state-centric political economy was, in short, also a moment of efflorescence for new political ideas with liberal roots, on the left, in the center, and on the right.

It was in this period of widespread strife and confusion, anemic economic performance, persistently high inflation, and mounting liberal suspicion of over-weaning states, that neoliberal economic and political ideology came to the fore in public and political debate. The states of advanced capitalist countries initially responded to the economic crisis of the 1970s with initiatives that were variants of existing state-centric policies – for example, fiscal stimulus programs, extension of social spending, or income policies. The fact that these initiatives were generally judged failures did much to tarnish the reputation of Keynesianism and of state-centered initiatives (Hall forthcoming). The apparent failure of Keynesian economic policies, together with the evident stagnation of the socialist economies, undermined Polanyi’s great transformation and created an opening for the previously heterodox ideas of the neoliberals.

The neoliberalism that emerged as an ideology and policy paradigm in the 1970s drew on classical liberalism and also on the efforts of theorists like Hayek and Friedman to modernize classical liberalism, but in the process of moving to political dominance some crucial elements of neoliberal theorizing were lost. Hayek distinguished his version of liberalism from the laissez-faire doctrine characteristic of the nineteenth-century liberals. It was, according to Hayek, a mistake to think that the state should do as little as possible. Rather, it should be the role of the state to intervene actively in economic life to
assure free competition under the rule of law. According to Hayek, various state regulations of economic activities, such as those limiting working hours or the use of noxious substances – or, for that matter the provision of “an extensive system of social services” – might be countenanced so long as any regulations fell equally and predictably on all actors and did not restrict price competition. Rather than a night-watchman state, the liberal state should be an active state guided by sound economic analysis and the rule of law (Hayek 2007 [1944], 85-7; 118).

At the same time, neoliberalism’s most crucial departure from classical liberalism was retained. Unlike classical liberalism, neoliberalism was not concerned about great concentrations of private wealth and power. Classical liberals had a decided antipathy toward trusts and cartels, which they saw as undermining the institutional basis of economic competition and as amassing too much power, both economic and political, in the hands of a few giant firms. But Hayek did not see private monopolies as particularly menacing; he blamed the evident monopolistic tendencies of the twentieth century on mistaken government policies rather than on intrinsic tendencies of modern industrial technology or overweening corporate power (91-4; see also Friedman 2002 [1963]; Van Horn 2009). For Hayek and Friedman, it was only overweening government activity that threatened liberty. Indeed, Friedman blithely asserted that capitalism “promotes political freedom because it separates economic power from political power” (2002 [1962], 9).

In the 1970’s the pioneering efforts of Hayek and Friedman were reinforced by the rise to prominence within the economics profession of the doctrines of such economists as George Stigler, James Buchanan, and Gary Becker, with Friedman’s Nobel Prize in 1976 perhaps the most obvious mark of neoliberalism’s entry into the
mainstream. In the course of the 1970s, neoliberal think tanks and foundations like the American Enterprise Institute and the Heritage Foundation in the US or the Institute for Economic Affairs and the Centre for Policy Studies in the UK grew in size and influence – thanks in large part to the munificence of their corporate donors. The right wings of the Republican Party in the United States and the Conservative party in Britain were increasingly receptive to the neoliberal ideas put into circulation by these think tanks and began to wrest control of their parties from moderates.

The decisive neoliberal breakthroughs came at the very end of the 1970s. In the spring of 1979, Margaret Thatcher, a strong advocate of neoliberalism, became Prime Minister of the United Kingdom. In November 1980, Ronald Reagan was elected President of the United States. The successive victories of Thatcher and Reagan meant that the world’s hegemonic capitalist power and its two leading financial centers, Wall Street and the City of London, came to be dominated by neoliberal ideologies and policies. Already in the fall of 1979, Paul Volcker, the head of the Federal Reserve under U.S. president Jimmy Carter, had publicly abandoned Keynesian policies for monetarism and had drastically raised interest rates. The purpose of this “Volker shock,” as it was called, was to push the economy into a recession that would sharply increase unemployment and definitively wring high inflation out of the system. Henceforth monetary stability was consistently favored over the Keynesian ideal of full employment. In the United States, this new policy induced the deepest recession since the 1930s, one that stretched, with a brief intermission, from 1980 through 1982.

Margaret Thatcher, who was more ideologically consistent than Reagan, immediately launched a neoliberal makeover of British economic policies, resolutely
attacking the trade unions, cutting taxes, and privatizing nationalized industries and the UK’s extensive stock of public housing. She denounced the “nanny state” and lectured sternly about the value of hard work, self-reliance, and entrepreneurial risk-taking. Her attacks on the National Health System were stoutly resisted, however, and her efforts to slash other aspects of the welfare state met with mixed results – it turned out that the British people were more attached to their welfare benefits than Thatcher had imagined (Pierson 1994). Ronald Reagan, too, made major changes in economic policies: deregulating industries, privatizing services, turning the National Labor Relations Board into an ally of union-busting corporations, and slashing taxes. Like Thatcher, he extolled entrepreneurialism and sturdy individualism; indeed, the effects of his rhetoric on public discourse probably ran ahead of his policy changes. His efforts to cut social security and Medicare, however, went nowhere – Americans, too, appreciated their welfare entitlements (Pierson 1994).

The elections of Thatcher and Reagan had an impact not only on the United States and the United Kingdom but also on the entire capitalist world. Because the United States was the world’s hegemonic power, its turn to neoliberalism in the early 1980s put the issue of neoliberal reforms on the political agenda in all the non-communist countries – which were all, in any case, searching for policies that might lift them out of the era’s extended economic crisis. In fact, most politicians in the advanced capitalist powers remained quite skeptical of Thatcher’s and Reagan’s ideological zeal. But if zealous neoliberal ideology hardly swept the field, monetarist and Chicago School economics and arguments for market-based reforms made significant headway in policy circles virtually everywhere. Over the course of the 1980s and 1990s a variety of market-based policies –
for example, deregulation, privatization, and free trade agreements – were adopted, generally piece-meal and pragmatically, by all the capitalist states. In Europe, much of the initiative was taken by the European Union, which, because it was buffered from popular political control, could impose market-friendly policies that its members would have found difficult to enact on their own.

When the Reagan administration took control of Washington, it quickly tried to fashion the IMF and the World Bank into what Joseph Stiglitz calls “missionary institutions” for neoliberalism (2002). As interest rates shot up after the Volker shock, rolling over or refinancing debt at the new rates became impossible for many Latin American and African states and they could escape bankruptcy only by means of IMF and World Bank loans. But these loans now came with drastic conditions. Borrowing countries were forced to cut domestic inflation, end import substitution policies, open their capital markets to the financial institutions of the wealthy countries and slash domestic spending, even on education and health care, so as to balance budgets. In the worst cases, mostly in Africa, already weak states essentially collapsed, resulting in domestic chaos. For Latin America and Africa, neoliberal reforms, whether imposed or adopted voluntarily, helped to turn the 1980s into a “lost decade.” But in East and Southeast Asia things were very different. The original Tigers, a reformed China, and newer export-led successes like Malaysia, Thailand, and Indonesia began to pull away from the rest of the Global South. Indeed, South Korea, Taiwan, Singapore, and Hong Kong were increasingly assimilated to the wealthy capitalist countries by the 1990s.

It was, of course, in the 1980s and 1990s that the communist world collapsed. In Poland, the Solidarity trade union posed a continual threat to communist control from
1980 forward. In the Soviet Union, Mikhail Gorbachev assumed power in 1985 and attempted to liberalize both public discourse, by means of glasnost, and the political and economic sphere, by means of perestroika. The fall of the Berlin Wall in 1989 was the death knell of Soviet communism, although the Soviet Union itself subsisted until 1991. The former communist countries of central and eastern Europe generally adopted neoliberal policies, sometimes including the famous “shock therapy,” for a double reason: not only were they abjectly dependent on the IMF and other western institutions after the collapse of communism, but neoliberalism’s hostility to the state and celebration of individual freedom was profoundly appealing to people who had long been oppressed by corrupt and overweening states (Bockman and Eyal 2002; Bockman forthcoming). By 1989, there was already a core of convinced neoliberals in many of the former communist countries, many of whom became important figures in the post-revolutionary states. In China, the Communist party retained its grip on power despite the chaos of the cultural revolution, but by the early 1980s Deng Xiaoping was gradually steering the regime away from collectivism and toward a more market-based economy.

By the early 1990s, it was clear that a neoliberal sea change had taken place in the dominant assumptions of economic theory, political ideology, and policy paradigms. The collapse of communism (or in the case of China its internal transformation) had seemed to prove the permanent superiority of the free market system. The long slump from 1973 to 1982 had given way to an equally long if not particularly vigorous upturn, punctuated but hardly stopped by the brief and shallow recession of 1991-92. Nonetheless, the conviction that that adopting neoliberal policies would reinvigorate economic growth turned out to be ill-grounded. Using Angus Maddison’s (2008) calculations, which
exclude the effects of the 2008 economic crisis, the absence of reinvigorating effects among the developed countries of the North during the neoliberal era is striking. As Figure 1 indicates, even if we use the relative low point of the 1978-83 quinquennium as the starting point for the neoliberal era, no sustained recovery in growth rates can be observed in either the U.S. or Western Europe during the subsequent quarter of a century.²

______________________________
INSERT FIGURE 1 ABOUT HERE
______________________________

Neoliberalism has actually been more successful as a means of shifting the balance of class political power than as an instrument for reinvigorating capitalist growth. Although overall economic growth rates have not actually increased, the proliferation of neoliberal policies has helped to funnel much of what growth there was into profits, particularly in the financial sector. There was, moreover, little dissent about economic policy. Deregulation; greater freedom of trade; encouraging entrepreneurship by lowering taxes; privatization of government services; encouraging financial innovation; freeing up of labor markets; enforcement of restrained monetary policies; pursuit of “shareholder value” as the goal of business: over the course of the 1980s and 1990s these neoliberal goals became common sense across the capitalist world. Although Bill Clinton and then Tony Blair, who were critical of the excesses of Reagan and Thatcher, came to power in the United States and Britain, it was during their heyday that a thoroughgoing neoliberal

² See also Harvey (2005:155) who uses data from the ILO to document declining world growth trends over the course of the neoliberal era. Defenders of neoliberalism might argue that without the stimulating effects of neoliberalism declines in growth rates would have been even greater. This counterfactual is, however,
international policy regime was codified and organizationally instantiated in bodies like the World Trade Organization (Brenner et. al. 2010).

Yet, if the 1990’s were the pinnacle of neoliberal dominance, this was also the decade in which signs of fracture began to emerge. By the end of the decade, the Washington consensus was already being called “the Washington confusion” and the East Asian Financial crisis and the fiasco of economic liberalization in Russia were being used by prestigious economists like Joseph Stiglitz (2002) to discredit the policy paradigm used by the IMF and the World Bank. At the same time, as the analysis of Hall and Barnes (this volume) suggests, popular support for certain neoliberal propositions was beginning to decline. For example, World Values Survey data show that over the course of the 1990s there was a fall the proportion of respondents who felt competition was more helpful than harmful or that governments should take less rather than more responsibility for taking care of people.

A decade later, following the financial crisis of 2008 and the deep recession that has followed, neoliberalism’s global ascendancy as economic theory, political ideology, and policy paradigm is under renewed challenge. Nevertheless, inertia and path dependence are likely to prolong neoliberalism’s effects on the social imaginary and the structure of political and economic power for years to come.

**Divergent Regional Strategies in the Neoliberal Era**

Neoliberalism’s global impact is undeniable, but its advocates fell far short of imposing a homogeneous development model around the globe. Distinctive national and paralleled by the fact that there is no evidence of lower growth rates being associated with less thorough-going adoption of neoliberal policies.
regional histories and political institutions produced diverse trajectories, despite global pressures to “harmonize” policies. In the discussion that follows, we illustrate the range of variation through synoptic snapshots of four regions: North America, Europe, Latin America, and East Asia. We anchor each regional snapshot with a brief analysis of an individual country: the United States, France, Brazil and China.

We will start with the region that has most thoroughly embraced the neoliberal model – North America. We will then move to Europe and Latin America. Both adopted “market reforms” but ended up with policy mixes that looked more like efforts to recuperate or reinvent the social democratic model of the post WWII “Golden Age” than like the full blown North American model of neoliberalism. Finally, we will turn to East Asia, the region that is universally acknowledged to have been most economically successful during the neoliberal era but whose development strategies have been, ironically, less an expression of neoliberalism than an alternative to it. This regional tour leaves out huge swathes of the world, but demonstrates the fundamental importance of variation.

**North America, the neoliberal epicenter:**

North America is the best illustration of how neoliberal ideological and policy paradigms can not only become embedded in concrete policy formulation but reshape the contours of political power. The United States has been neoliberalism’s most consistently enthusiastic proponent and adopter. It now appears that Canadian policies are following in the wake of the U.S. model, turning North America into the epicenter of neoliberalism. In the 1990’s, European politicians often argued for increasing the role of
markets in their own countries by ascribing the more rapid American growth rates of that decade to neoliberalism. But the relatively slow growth of the U.S. economy in the 2000s, capped by the economic crisis of 2008, have quieted such arguments. In fact, the U.S. has shared Europe’s inability to recapture anything approaching the growth levels of the Golden Age.

Politics, rather than some kind of structural economic logic, explain why the U.S. became a neoliberal bastion. The “Reagan Revolution” remains a lodestar for American politicians on the right and is still considered too popular to be challenged seriously by politicians of any stripe. Indeed, one might argue that neoliberal ideological tropes have become shibboleths, considered definitive of the American national identity by large segments of the political class. Despite the important historical role actually played by state in fostering the growth of the U.S. economy, a role that has continued surreptitiously throughout the neoliberal era (Block and Keller 2010), advocates of an explicit state role in promoting economic transformation are currently beleaguered. And despite a historical tradition of state intervention on behalf of social protection (Skocpol, 1992), the legitimacy of efforts to protect ordinary citizens against the negative effects of markets seems increasingly precarious.

Although there are clear affinities between neoliberalism and longstanding anti-statist traditions in American political culture (Evans, 1997), this tradition had been effectively marginalized between the 1930s and the middle 1970s. It was only the political upheavals of the 1960s and 1970s that enabled its revival. We have noted that Keynesian policies failed to resolve the economic woes of the 1970s, making neoliberal doctrines seem more plausible. Meanwhile, the upheavals of the civil rights and women’s
movements alienated the “Solid South” and a sizeable proportion of the male working class from the Democratic Party. This provided an opening for the Republicans, who used appeals to “traditional values” and “the American way” to enlist a winning coalition of disgruntled men, conservative Christians, neoliberal ideologists, and erstwhile white supremacists, along with its longstanding base in the capitalist class. These apparently strange bedfellows formed the social basis of the “Reagan Revolution” and have continued to provide its bedrock of support.

The adoption of neoliberal ideology and policies by the Reagan administration facilitated major shifts in the structure of American politics. Neoliberalism, always unconcerned about the potential political power of private economic elites, has effectively disabled arguments for checking corporate influence. An ideologically diverse set of analysts, ranging from Marxists like Harvey (2005), to dissenting economists like Simon Johnson (2009) to political scientists like Hacker and Pierson (2010a; 2010b) agree that the increasing political power of corporate capital, especially finance capital, has constituted a dramatic shift in the structure of U.S. politics – with profound consequences for policy and hence for American society. Johnson (2009) puts it most starkly, asserting that “the finance industry has effectively captured our government.” Hacker and Pierson (2010a, 2010b) provide a detailed exposition of the process by which this has happened. Journalists and social scientists alike chronicle the ability of politically well-placed corporations, especially those in the financial sector, to shift tax and regulatory rules in ways that increase their profits.

If a shifting balance of political power and corresponding changes in tax and regulatory policy are the most striking features of the politics of the neoliberal era in the
United States, rising income inequality is the most prominent feature of its social effects. Inequality has skyrocketed in the US since the mid 1970s. Real wages have stagnated, while the share of income going to the top tenth of one percent has quintupled since 1973. The now classic 2003 analysis by Piketty and Saez (2003) captures the dramatic change in U.S. inequality during the neoliberal era nicely (see Table 1). The contrast between the evolution of income inequality during the Golden Age of embedded liberalism and the Neoliberal era could hardly be more striking. The Golden Age continued the “great compression” of U.S. wage inequality that began prior to World War II (see Goldin & Margo, 1992). The Neoliberal era reversed it, taking inequality back to levels not seen since the First World War.\(^3\)

The social effects of inequality are broad, variegated and well documented. The rising incidence of risk among the middle and working classes (Hacker, 2006) and the erosion of social protection may well be more profound and socially corrosive than the shifts of income inequality *per se*. Frank, Levine and Dijk (2010) provide a nice quantitative analysis of the secondary effects in inequality. Comparing high and low inequality jurisdictions in the U.S., they find that high inequality situations are associated with a tendency to “live beyond ones means” and therefore experience financial distress as measured by levels of bankruptcy. Their data also confirms the less obvious argument that “financial distress may increase the level of stress in personal relationships, thus increasing the likelihood of marriages ending in divorce (2010:17).”

The connection between the policy paradigm associated with neoliberalism and

\(^3\) It should be underlined that the contrast between the two periods involves no “growth-inequality trade-off.” U.S. citizens were not compensated for getting a smaller share of the pie by being able to enjoy a faster growing pie. To the contrary, the pie grew more slowly while the rich took a bigger share.
the rise of inequality in the U.S. is not hard to make. Efforts to find alternative explanations in market forces and technological change fall short, as Hacker and Pierson 2010b: 34-40) explain nicely, leaving, as they put it “the usual suspect: American Politics.” Tax policy is the most obvious link between neoliberalism and increased inequality. Harvey (2005:26) points out the divergent impact of changing tax policy on rich and poor during the neoliberal era in the United States. While the tax rate for the highest bracket was more than cut in half between the golden age and 2005, the rate in the lowest bracket was higher than it had been at the eve of World War II. Hacker and Pierson (2010b: 49) estimate that three decades of tax cuts for the top 0.1 of income earners has almost doubled the increase in their share of national income.4

Tax cuts are only the most obvious path from neoliberal policies to increased inequality. Changes in social provision and policies toward workers rights have also had profound effects. Dan Zuberi (2006) provides a compelling illustration of the consequences of differences in social provision and labor rights by comparing the lives of low wage hotel workers in the Pacific Northwest on either side of the U.S./Canadian border. Better wages and greater job security associated with higher rates of unionization, together with more social provision (particularly with regard to health care) in Canada, generated dramatic differences, not just in the individual lives of these workers but also in the comparative quality of the communities in which they lived.5

In his more recent book, Zuberi (2010) extends the analysis of the effects of different labor regimes by examining the changes over time in the working conditions of

4 A flood of recent books make similar connections between shifts in the balance of political power and the rise of inequality in the U.S. (e.g. Bartels, 2008; Kelly,2009).
5 See also the discussion of these results by Herztman and Siddiqi in Hall and Lamont, 2009.
low wage workers in Canadian hospitals. Here he shows how the reorganization of work
and degrading of the employment relation under neoliberalism has ramifications beyond
the deteriorating circumstances of low wage workers. He carefully documents the
connections between the degradation of working conditions among hospital cleaning and
support staff and the alarming rate of deaths from hospital acquired infections. As Zuberi
(2010:327) puts it, “Decent employment conditions are also a central cornerstone of
public health and consumer safety.” Zuberi thus provides an important complementary
vision of the chain of causation leading from neoliberal policies to negative social effects.

The fact that Zuberi did not have to leave Vancouver to examine the effects of
neoliberal labor policies in his more recent research, meshes nicely with Hertzman’s
analysis (this volume) of the social effects of the increasing predominance of neoliberal
policies in Canada. Examining U.S./Canadian differences earlier in the neoliberal era,
Hertzman and Sidiqqi (2009) showed that higher levels of social provision and social
protection led to Canada’s catching up to and surpassing the U.S. in terms of social
indicators like life expectancy over the initial decades of the neoliberal era. But
Hertzman’s more recent analysis (this volume) shows how Canada’s shift toward more
neoliberal policies in the mid-nineties has undermined the Canadian advantage. While
Bouchard (this volume) argues that resistance to neoliberalism as ideology and policy
paradigm in Quebec has helped preserve and even extend previous levels of social
protection up until the recent past, there is reason to worry that Canada’s overall social
trajectory will follow that of the U.S.

---

6 In the U.S. hospital acquired infections, 30%-50% of which are preventable, lead to almost 2 million
people sickened, just under 100,000 deaths, and $7Billion in treatment costs (Zuberi, 2010:2).
The full-blown efforts to instantiate neoliberal ideology as policy in the U.S. from the beginning of the neoliberal era, and more recently in Canada, have had disturbingly negative social effects. The path of change leads from neoliberal ideology to politics and policies that sharpen economic inequalities. Rising inequalities in turn erode not just the relative economic status of the poor but the social relations that knit together poor communities and connect them to the society at large, producing negative reverberations in the communities in which the poor live and in society at large. But while the U.S. case is a crucial one, it would be an error to assume that the U.S. is the archetype for social transformation in the neoliberal era. Some regions of the world experienced increased economic growth rather than stagnation during the neoliberal era and some countries have witnessed impressive social progress as well. Divergent effects make sense once divergent trajectories of political and policy choices are taken into account.

**Europe: the Persistence of Social Democratic Institutions**

As we have already chronicled, Europe was strongly affected by neoliberal ideology and policy paradigms during the 1980s and 1990s. But, with the exception of Thatcher’s U.K., the European trajectory was hardly an unambiguous triumph of neoliberalism. All Western European countries liberalized their markets – indeed, liberalization was required by membership in the European Union. But Continental European countries also retained the protective social democratic institutions built during the “Golden Age”.

Nor did this mixture of market-enhancing reforms with strong social protection condemn European social democratic regimes to slow growth and high rates of
unemployment, as neoliberals claimed it would. GDP growth between 1979 and 2005 was nearly identical in the EU and in the United States: 60.5 percent as against 61.5 percent. And GDP per hour of work actually grew more rapidly in Europe than in the US (Hacker and Pierson, 2010:159, 198). Careful empirical analysis also demonstrated that “labor-market flexibility, US-style,” did not hold up as remedy for European unemployment (cf. Freeman, 1994). Instead, European countries that adopted policies of labor activation and investment in human capital had employment levels higher than did European countries not adopting such policies (see Bradley & Stephens, 2007; Huo, Nelson & Stephens, 2008; Iversen & Stephens, 2008).

France provides a good illustration of the persistence of social democratic institutions in the face of an apparent “neoliberal turn.” In the early 1980s, France seemed the obvious counter-example to the rapid advance of neoliberalism in the United Kingdom and the United States. In 1981 socialist François Mitterand was elected president and a coalition of the socialist and communist parties won a large majority in the National Assembly. France already had a large state sector and a strong dirigiste state that featured extensive economic planning, tight regulation, and state-provided credit for private firms in key industrial sectors. This strong state had propelled very rapid economic growth in France during the Golden Age. In 1981, the left coalition further strengthened the state’s hand by nationalizing a large number of industrial corporations and nearly all the big banks. It also increased state spending with the explicitly Keynesian goal of lifting the country out of the deep recession of those years. But these measures increased the state debt, provoked capital flight, and plunged the country into a balance of payments crisis. When successive devaluations failed to solve the problem, France was
threatened with expulsion from the European Monetary System. Mitterand, forced to chose between Europe and the left’s program, unhesitatingly chose Europe. He made a U-turn in economic policy in 1983, sharply raising taxes and cutting the budget to reduce inflation (Fourcade and Babb 2002; Hall 1987).

The U-turn entailed a far-reaching transformation of state industrial policy and hence of the French economy. While the state continued to provide capital to industry, availability of capital was now stringently conditioned on making firms internationally competitive, both within and beyond Europe. Hence the state, which had previously attempted to foster full employment, instead encouraged downsizing, subcontracting, shedding of unprofitable lines, and reorganization of production to increase productivity – which resulted in massive layoffs (Hancké 2001, 316-7). It also changed regulations so as to give firms greater freedom to raise capital in national and international stock and bond markets and introduced greater flexibility into labor markets (Levy 2005, 106).

When the right gained a majority in the National Assembly in 1986, it began to privatize the state-owned companies, a policy that, in part because it raised considerable state revenue, was continued subsequently by both right and left governments. By 2000, it was only firms engaged in transportation, energy production, and weapons manufacture that remained in state hands (Levy 2005, 106). By then leading French companies had become highly competitive in international markets and had indeed made considerable acquisitions both in Europe and in North America (O’Sullivan 2007, 420). In short, in the two decades following Mitterand’s U-turn in 1983, the French state withdrew from its previous leading role in the economy and firms came to be governed increasingly by market forces. In retrospect, this was an absolutely breathtaking liberalization of what
had been the most state-dominated economy in Western Europe.

These far-reaching changes were justified not by neoliberal doctrine but as a necessary and pragmatic modernization of the French economy. As J. D. Levy puts it, this was a “liberalization without liberals” (2005, 122). This can be seen with particular clarity in the realm of social policy. The governments that imposed these reforms were concerned about their negative social effects, above all high unemployment, which in fact hovered around ten percent for most of the 1980s, 1990s, and 2000s. Both socialists and Gaullists responded by enacting compensatory social policies. Much of the unemployment that resulted from corporate downsizing was offset by new programs for early retirement. The state also offered extensive job training for workers who were made redundant, offered incentives for hiring young workers, and authorized part-time employment. Welfare programs – for example in health care, childcare, and housing – were expanded to help cushion the hardships incumbent on marketization. By 1999, France was spending 29.5 percent of GDP on social expenditures, the highest proportion of any European country outside Scandinavia. In the United States, the proportion was 15 percent (Levy 2005, 107-10; Palier 2005). Far from adopting the entire neoliberal package of marketization and cuts in welfare spending, France compensated for aggressive marketization by equally aggressive and carefully targeted new welfare spending.

One consequence of France’s compensatory policies is that it is one of the few capitalist countries in which income inequality has failed to rise over the past thirty years. As Thomas Pickety has shown, French incomes, like those in most OECD countries, became steadily more equal through the mid 1970s, but, unlike elsewhere, French
incomes were still as equal at the end of the twentieth century as they had been in 1973.
(See figure 2.) This is in sharp contrast to the United States, where the proportion of
income going to the very wealthy has skyrocketed (and also in contrast to Canada which
has followed the U.S. trend with about a ten year lag).

This result was achieved in spite of the liberalization of the product, capital, and labor
markets described above, which indeed had the effect of increasing profits in industry and
decreasing the share of labor in value added. The maintenance of relative income equality
in France was mainly a consequence of post-market redistribution, that is, of sharply
progressive taxes that funded robust social programs (Piketty 2003, 1022, 1027-33; Levy
2005, 106-7).

Contemporary France has its share of social problems. It has chronically high
rates of unemployment that reach crushing levels among poor young men of immigrant
extraction in the banlieux of its major cities; it has serious problems of racial and ethnic
discrimination and considerable populist rage against immigration. As in other countries
that have undergone extensive economic liberalization, job security has declined sharply
and the labor market is increasingly divided into a secure primary and insecure secondary
sector (Palier and Thelen 2010). But France has managed a transition to market-centered
global capitalism that has substantially mitigated negative effects on social well-being.
One could tell quite distinct yet essentially parallel stories about other West European
countries, for example Germany, the Netherlands, or Sweden. This widespread continental European pattern indicates that a pragmatic adoption of an extensive range of distinctly “neoliberal” economic reforms can in fact be combined with welfare-enhancing public policies.

**Latin America’s Rediscovery of Social Democracy**

If Pinochet’s Chile made Latin America look like a U.S. dominated laboratory for the imposition of neoliberal policies at the very beginning of the neoliberal era, the effects of neoliberalism in Latin America look quite different thirty years later. The wave of democratization that has swept through Latin America since the 1980’s makes it the best arena for examining how the political effects of the classically liberal political thread that is entwined in neoliberal ideology interacts with the economic policy paradigms legitimated by neoliberal economic theories. Latin America, more obviously than any other region of the globe, has been the beneficiary of neoliberalism’s rhetorical insistence on freedom and democracy. Many Latin American democratic movements of the 1980s and 1990s drew on global neoliberal tropes both to gain local legitimation and to attract allies in the North. Their success in unseating authoritarian regimes changed the tenor of Latin American politics. These political changes supported new efforts at social protection that arguably brought key Latin American countries closer to the social democratic model than they had been during the post-World War II Golden Age of Capitalism.

In the Golden Age, the benefits of the welfare state in Latin America were a privilege reserved for the elite minority with stable formal sector jobs. Institutions of
social protection were weak and inequality was more extreme than in any other region of the world (de Ferranti, Ferreira and Walton, 2004). Given the weak institutional foundations for social protection in Latin America, it is all the more impressive that, after initial setbacks in the 1970’s and 1980’s, social democratic politics began to revive in the 1990’s. In the first decade of the 21st century, the effects of democratization were intensified with the election of a series of “pink tide” political leaders, from Luiz Inacio “Lula” da Silva in Brazil to Evo Morales in Bolivia, who were brought to power by popular mobilization and left parties. The shifts in inequality accompanying democratization in Latin America are the mirror image of the shifts associated with the increasing political power of capital in the United States. According to economist Nora Lustig (2009:1): “inequality in Latin American countries has declined in twelve out of the seventeen countries for which there is comparable data at an average rate equal to 1.1 percent a year.” Lustig (2009:19) adds that “average reductions in poverty and extreme poverty were roughly between two and three times greater (or even more in the case of extreme poverty) in those countries governed by the left.”

The policy effects of the shift to more democratic politics have occurred despite conformity to important elements of the neoliberal policy paradigm. Brazil illustrates the point. On the one hand, democratization has taken place not just at the national level in the form of free elections and a new constitution, but also at the local level in an effervescent combination of mobilization and innovative democratic institutional forms (Baiocchi, Heller and Silva, 2011). On the other hand, democratic Brazil has, like Europe, adopted consequential elements of neoliberal economic policy. Despite the size and diversity of the Brazilian economy, chronic international indebtedness and
corresponding balance of payments problems have made conformity with the fiscal
dictates of neoliberalism essential to economic survival. Nor was the shift toward more
e neoliberal economic policies simply a matter of external pressure. As in Europe,
advo cates of reform could easily claim that rigidities resulting from regulation and a
heavy state presence in the economy were hindering economic growth. Equally
important, 400 years as an economy firmly integrated into global markets had nurtured a
local elite that believed deeply in the value of capitalism. For them, as for many elites in
the Global South, powerful global actors urging the adoption of neoliberal policies were
welcome allies.

Despite pragmatic and ideological support for neoliberal policies, however, the
influence of neoliberalism was tempered by powerful nationalist traditions and weaker,
but still appreciable, socialist currents. For the Left, national aspirations included the
necessity of leaving behind Brazil’s colonial legacy of gross inequality and poverty
encompassing most of the rural population. Both left and right agreed that Brazil should
take its rightful place in the world as a major power and that this required a diversified
local economy with a substantial degree of local control over resources. Brazilian elites
never fully embraced the anti-statist assumptions of Anglo-Saxon-style neoliberalism.
Authoritarian generals and democratic socialists were both happy to use the state
alongside markets to make sure that the Brazilian economy continued to diversify and
that Brazil’s trajectory of growth was not primarily shaped by the priorities of capital and
governments in the North (see Evans, 1995).

The combination of democratic pressures and nationalist economic traditions led
to a hybrid set of policies that melded an increased openness to global markets with a
continued economic role for the state and systematic efforts at social protection. F.H. Cardoso, who served as president of Brazil in the nineties, reduced protections for local industrialists and used the sale of state-owned industry as a source of hard currency. But, despite reductions in the state’s presence in the economy under Cardoso, Brazil continued to rely on the state to play a strategic role.\(^7\) Equally important, Cardoso built institutional foundations for a more socially-oriented development. Lula, Cardoso’s successor, was the leader of the Worker’s Party, which had strong Marxist socialist traditions. Yet, once elected in 2002, he put officials acceptable to global finance in charge of financial policy, and kept real interest rates at high levels. Like Cardoso, he earned the epithet “neoliberal” on the Brazilian left. In fact, neither Cardoso nor Lula was a neoliberal, despite their recognition that financial conformity was an inescapable consequence of life in a neoliberal era. Nor were their social and developmental strategies those that would be predicted on the basis of a generic neoliberal paradigm. Indeed, Brazil appeared to be experimenting with a new “social development” policy paradigm (Kerstenetsky, 2010).

Taxes and public employment expanded rather than contracting (see Kerstenetsky, 2009: 14). Rather than a deteriorating social safety net, Brazilians experienced a gradually improving one during the neoliberal era. “Bolsa Familia,” Brazil’s conditional transfer program, was small in terms of overall expenditures, but transformed the lives of tens of millions of poor Brazilians, almost a quarter of the entire population. Access to health care and education expanded. Brazil relinquished its claim

\(^7\) The trajectory of Petrobrás, the state-owned oil company, illustrates the point. Petrobrás is now officially a private company, but the state retains enough ownership to continue to use Petrobrás as an instrument of national policy, including, most dramatically, in the discovery of huge new offshore oil reserves that should fundamentally change Brazil’s balance of payments situation.
to being the world champion of inequality. Instead of growth bringing greater inequality as it had under the military in the 1970’s, it was “accompanied by rising average earnings, more formal employment, greater social protection for the population as a whole, greater equality in household income and wages, and a reduction in poverty” (Kerstenetsky, 2009:15).

Contrary to neoliberalism’s claims that the welfare state undercut economic dynamism, Lula’s social policies proved to be growth policies as well as social policies (cf. Evans, 2010). Brazil weathered the 2008 economic crisis very well. The combination of increasing formal employment and public support for the incomes of the poorest helped sustain growth. As Kerstenetsky (2009: 33) summarizes the outcome, “The recent social developmentalist experiment has combined growth with equity and (still marginal) capability gains in Sen’s sense.” Brazilian policy-makers’ ability to produce such salutary results, despite its economic elite’s thorough commitment to capitalism and its relatively precarious position vis a vis international financial markets, underlines once again the importance of politics. However, the explanation for Brazil’s ability to combine growth with greater social protection is not purely political. Increased demand from China for Brazil’s agricultural and mineral exports, as well as for a select range of local manufactured products (Castro, 2007; 2008) counterbalanced the negative effects of globally dictated high interest rates and helped sustain growth. Nonetheless, the basic story of Brazil’s development strategy remains the political choices that flowed out of democratization, popular mobilization, and the new structure of democratic competition that they produced.
Other major Latin American Countries had their own distinctive trajectories, but by the turn of the century these strategies could not be considered as shaped primarily by the embrace neoliberal ideology and policy paradigms. In Chile, Ricardo Lagos and Michelle Bachelet worked to subvert the institutional constraints inherited from Pinochet’s politically illiberal version of neoliberalism. In Argentina, efforts at complete conformity to neoliberalism led to economic collapse and to a new search for alternatives. In Venezuela, oil revenues supported Latin America’s most avowedly socialist regime outside of Cuba and in Bolivia socialist ideology is combined with a new ethnic politics to create a redistributive political agenda (see Lucero, 2008; Kymlicka, this volume). While Brazil has been especially successful in its rediscovery of social democracy, the economic benefits of continued social investment are evident throughout the continent. Latin American social democratic regimes have managed to grow at rates far higher than those they achieved in the 1980s. Twenty-first century Latin America continues to face serious social challenges but (outside of finance) its strategies are not being dictated by imposed neoliberal policy paradigms, nor do they emanate from an active embrace of neoliberal ideology. Indeed, the contemporary Latin American vision might be characterized as a nascent quest to build a “globalized social democracy” (Cardoso, 2009; Evans, 2009).

**East Asian Developmentalism**

If Latin America best illustrates the complexity of political dynamics in the neoliberal era, East Asia is the obvious place to explore the dynamics of economic success. Rapid post World War II East Asian development began with Japan’s experience
in the 1950’s and 1960’s, spread to Korea and Taiwan in the 1970’s, and was then adopted in altered form by China in the 1980’s. The shift in East Asia’s position in the global hierarchy of wealth and productive capacity during the neoliberal era is historically unprecedented in its magnitude and rapidity. Indeed, when future historians look back at the late twentieth century political economy, East Asia’s vertiginous rise may well eclipse neoliberalism as the main story.

East Asia’s developmental success is clear. What it tells us about the effects of neoliberalism as ideology or policy paradigm is less clear. While East Asia’s success included increased engagement with global markets, regional practices stood largely in contrast to neoliberalism both as economic theory and as political practice. From the East Asian tigers to the “communist capitalism” of China, East Asia in the late twentieth Century is the home of the “developmental state,” an anathema from the point of view of neoliberal economic theory. China’s three decades of rapid development is the most important single case, but the ways in which trajectories of Korea and Taiwan have diverged from China’s are an essential complement for assessing social effects.

China’s combination of market logic with a panoply of structural and ideological features that diverge sharply from neoliberal prescriptions is the single most glaring example of the variations possible within the global paradigm of neoliberalism. The increasing role of markets was crucial to China’s rapid economic growth. Centralized control over the allocation of economic resources by an opaque political apparatus restrained by few political or economic checks was mitigated after the late 1970s by an increased role for market allocation. This helped decentralize economic decisions and increased efficiency, particularly in agricultural markets.
Calling the architect of these changes, Deng Xiao Ping, a “neoliberal,” as David Harvey (2005) does, may be a useful rhetorical device but it obscures the continued central and powerful role of state and party in the allocation of resources and the formulation of economic strategy. China’s ability to turn the increased role of markets into an engine of growth was predicated on the persistence of a powerful and pervasive role of the state and specifically of the Chinese Communist Party in the economy (Johnson, 2010). Despite the collapse of the communist-era state-owned enterprises, new corporations wholly or partially owned by the state continue to dominate the most advanced sectors of the Chinese economy and smaller enterprises owned by local units of government are also ubiquitous. The state determines the grand outlines of industrial policy, provides much of the financing of enterprises, and stringently oversees infusions of foreign capital.

The trajectory of social effects that has accompanied China’s development also makes it tempting to apply the “neoliberal” label. Despite embedding markets in a complex, state-dominated system of political control, Chinese society has suffered from sharply rising income inequality and a massive withdrawal of social protections (see Davis and Wang, 2009). “Communist Capitalism” has erased the exceptionally low levels of inequality and relatively high levels of social protection that had characterized China in the socialist period. China’s trajectory in this regard stands in sharp contrast to the Brazilian case, which suggests that the absence of institutionalized mechanisms for bringing political demands from below to bear on the state is the culprit behind the negative social effects. Chinese politics are, nonetheless, still a far cry from neoliberal politics as epitomized by the United States. To be sure, a burgeoning local capitalist class
has already co-opted enough party officials to affect policy formation, but the Chinese Communist Party remains a formidable political actor. The Party-state still appears able and willing to reshape market rules when restructuring is considered necessary to preserve social stability. Hu Jintao’s “harmonious society” platform, which included pushing labor law reform through in the face of opposition from foreign capital, illustrates the point. For the present, when the interests of capital appear to conflict with national interests as defined by the Communist Party, the Party appears able to prevail (see Arrighi, 2007). Striking workers and protesting peasants reinforce these tendencies by feeding the Party’s pre-occupation with social stability and strengthening the hand of those who prioritize stability. On the other hand, unrest also tends to reinforce the Party’s resistance to democratization – which, to judge from the Brazilian case, would be expected to increase the demand for social protection.

Two basic lessons might be extracted from the Chinese case. Both are consistent with the lessons we drew from the analysis of Brazil, despite the sharp contrast between the trajectories of Latin America and East Asia during the neoliberal era. First, economic success would appear to depend on preserving the state’s capacity to play a strategic economic role. Second, it appears that unless the democratic voice of ordinary citizens can be institutionalized, it will be difficult to avoid potentially negative consequences of the expanded role of markets.

Looking at Korea and Taiwan reinforces both lessons. Beginning in the 1970s, they combined active and authoritarian developmental states with engagement in global markets to produce rates of growth unprecedented in the histories of Europe or the United States. But in the later decades of the neo-liberal era, both Korea and Taiwan moved
toward democratization and began a notable expansion of social protection (see Wong, 2004; Peng & Wong, 2008; Dostal, 2010; McGuire, 2010). In Taiwan and Korea, the last quarter century has been a period of socio-political transformation that looks more like an effort construct a version of the post World War II Golden Age in Asia than like the application of a neoliberal template. Siddiqi and Hertzman (2001:331) sum up the lessons of the Asian Tigers as follows, “The Tiger economies of Southeast Asia seem to be an example of economic growth and increasing parity in income distribution occurring together over time, concurrent with a dramatic improvement in population health.“ Between 1985 and 1995, at the height of neoliberalism in Europe and the U.S., state expenditures as a percentage of GDP increased by 25% in Korea and over 30% in Taiwan, largely because of increased welfare programs. Joseph Wong (2004), who chronicles the shift toward greater public expenditures on health, argues for a strong connection between extension of welfare spending and democratization. Three-fourths of Wong’s elite respondents in the two countries endorsed the statement, “In Taiwan/Korea, there would be no improvement in social welfare without transition to democracy.” McGuire (2010:300) notes that a network of “progressive doctors, academics, and former democracy advocates lobbied successfully for the introduction of single-payer national health insurance” in Korea in the early nineties. Dostal (2010:165) highlights “democratization and political mobilization” as the most significant factors in expanding social provision in both Korea and Taiwan.

Even more clearly than Europe and Latin America, East Asia illustrates the importance of looking at trajectories of change during the neoliberal era as driven by a complex mix of global opportunities and pressures on the one hand and distinctive
national and regional political and institutional traditions on the other. East Asia also reinforces the idea that it is worth distinguishing the effects of neoliberal policy paradigms from the effects of shifts in political institutions. Markets were useful tools for East Asian regimes precisely because these regimes did not relinquish the institutional capacity to make political decisions on how markets should be used. The cases of Taiwan and Korea also reinforce the idea, which emerged in our analysis of both Europe and Latin America, that the attraction of traditional social democratic strategies remains powerful even thirty years into the neoliberal era. When preferences for social democratic practices are effectively institutionalized, they mitigate the perverse social effects of neoliberal policy paradigms. The two cases that show least evidence of social democratic tendency are strange bedfellows: China and the United States. China’s explicitly illiberal politics produce social effects that parallel the inegalitarian evolution of the U.S., where rhetorical loyalty to classical liberal principles is assumed to make the fusion of economic with political power unproblematic.

Conclusion

What have been the overall consequences of neoliberalism’s emergence as the dominant theoretical and ideological framework for the global political economy? Any answer to this question must first acknowledge the limits of neoliberalism’s success. Creating a uniform neoliberal global economy and homogenizing national institutions (see Evans, 2004) proved a more difficult project than advocates of neoliberalism imagined. National politics have turned out to be far more resistant than either proponents or critics of neoliberalism are wont to acknowledge. From inside the Anglo-
Saxon world, and particularly from inside the United States, the transformative effects of neoliberalism seem overwhelming. Seen from the region that has emerged as most successful in the neoliberal era – East Asia – neoliberalism is one element in an array of eclectic ideological constructions that include statist developmental strategies, and that, in the case of China, also feature profoundly illiberal politics. From the perspective of other regions – Europe and Latin America – the persistence and even revitalization of pre-neoliberal social democratic traditions is as striking as the effects of neoliberalism itself. But despite these sweeping caveats neoliberalism has had powerful effects, not just in the United States, but around the world.

If the neoliberal era has seen no increase in economic growth rates, it has seen a remarkable transformation of the institutional structure and dynamics of the world economy. It has, in most countries of the world, decreased the power of organized labor and increased the power of capital. In all but a few countries, this has meant increasing inequality of incomes. These changes have followed from the enhanced role of markets, including global markets, in the allocation of resources. Increased “globalization” of economic activity has certainly been one of the most prominent features of the neoliberal era. World trade has grown rapidly and corporations have become much more international in their financing, sales, and internal division of labor. In part, this is due to technological changes such as containerization of transport, the generalization and improvement of commercial airline service, and the development of high-speed communications via satellite, fiber-optic cables, and the internet. These technologies, which have drastically increased the speed and cut the costs of long-distance transportation and communication, were, of course, primarily the result of technological
changes quite independent of neoliberal policies and would probably have led to increased internationalization of the economy had neoliberalism never attained hegemony. But the increasing ease and decreasing costs of world trade and communication certainly helped to make the neoliberals’ push for freeing international trade more alluring to corporate interests and more plausible to the general public. In turn, the worldwide consolidation of a neoliberal institutional framework for international exchange fostered ever more rapid and “frictionless” global circulation. Neoliberalism hence figures as both cause and effect of the exceptionally rapid global time-space compression of the past three decades (Harvey 1991).

The undoubted rise of global trade in the neoliberal era should not, however, be glossed as simply the rise of “free markets.” Despite their professed belief in open markets, the rich countries of the North continue to follow neo-mercantilist strategies to a degree that belies their rhetorical pronouncements. Agricultural policies are the most blatant cases, but close examination of any “free trade agreement” yields myriad less obvious examples. Likewise, the rules that govern global markets are, in large measure, the result of carefully orchestrated political action on the part of the corporate capital whose profits depend on how these rules are written. Finally, of course, the United States (and other countries in slightly more subtle way) continue to engage in old fashioned efforts to gain political and economic control over other countries by political and military means. It is a more globalized world, but not a world in which markets have been freed from politics.

Another important economic transformation of the neoliberal era has been a tremendous rise in the importance and economic weight of finance, both nationally and
globally. Again, financialization figures as both cause and effect of the rise of neoliberalism. The collapse of the Bretton Woods system of pegged exchange rates opened the way to new forms of financial intermediations based on newly fluctuating currency values in the 1970s. By the early 1980s, the pressure of international financial speculators was often instrumental in forcing or inducing countries to adopt neoliberal policies as a means of countering runs on their currency (see, e.g., Fourcade and Babb 2002). Meanwhile the increasingly wealthy financial institutions mounted effective political campaigns for loosening or dismantling of regulations, campaigns that were legitimated by neoliberal ideology. The resulting policy changes led to a proliferation of new financial “products,” the growing international reach of finance, and the increasing reliance by firms of all sorts on financial benchmarks in judging success. This financialization of the economy also contributed importantly to the rising instability both of both the micro-economy, by fostering buy-outs, downsizing, and bankruptcies, and of the macro-economy, by increasing the incidence of national, regional, or global crises. This instability has resulted in increasing insecurity for ordinary people and capitalists alike, which is among the most important and problematic social effects of the neoliberalization of the world economy.

Just as the structure of the global political economy has shifted, the social imaginary that neoliberalism fosters seems to have been assimilated very broadly across the world in spite of differences in the policy mixes and policy discourses of national environments. As a result of global neoliberalism, the language and the institutional model of the market appears to have seeped into nearly all aspects of contemporary life. The media and popular culture have absorbed the notion that we should have
entrepreneurial selves, that we must be constantly ready to retool ourselves for new opportunities, that seeking individual interest is natural, and that vast riches are the just reward for innovators.

If Friedrich Hayek could return and view the world that his intellectual efforts helped to make, he might take great satisfaction in some parts of the transformation, but he might also find some consequences of neoliberalism’s success disconcerting. While neoliberalism may claim some credit for having helped check the power of oppressive state officials, it would be hard for Hayek to ignore the magnified power of private elites that it has indubitably abetted. While neoliberalism has increased the role of markets, it has also increased the ability of capital to reap unfair returns by writing the rules that determine how those markets work. And he surely would have been disappointed in the lack of economic dynamism exhibited by the countries that hewed most closely to neoliberal doctrines.

For those of a more Polanyian bent, who value equity and community and consider the self-regulating market a dangerous utopia, the failure of the great transformation and the rise of neoliberalism is a bitter confirmation of their theoretical presuppositions, as well as a suggestion that they too should have been more worried about the ability of private elites to capture political power. Where it has been systematically put in place, neoliberalism has not just exposed families and communities to the volatility and irrationality of the market, it has enabled the rich to use public policy to shift resources in their favor while undermining the public institutions that support ordinary citizens’ efforts to live fruitful and productive lives. These changes have sharply intensified the problem of social resilience in the age of neoliberalism.
References


_____. 2009. “From Situations of Dependency to Globalized Social Democracy,”


Kymlicka, Will. (Forthcoming) “Neoliberal Multiculturalism.” In P. A. Hall and Michele Lamont, *Social Resilience in the Neo-Liberal Era.*


Figure 1

Western Europe includes 30 countries and territories: Andorra, Austria, Belgium, Cyprus, Denmark, Faeroe Islands, Finland, France, Germany, Gibraltar, Greece, Greenland, Guernsey, Iceland, Ireland, Isle of Man, Italy, Jersey, Liechtenstein, Luxembourg, Malta, Monaco, Netherlands, Norway, Portugal, San Marino, Spain, Sweden, Switzerland, United Kingdom.

Figure 2: Top 0.1% Income Shares: U.S, France and Canada


Table 1: U.S. Inequality: The Golden Age vs. the Neoliberal Era

Golden Age

<table>
<thead>
<tr>
<th>Income Share</th>
<th>1947</th>
<th>1973</th>
<th>Aprox. % change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 0.01%</td>
<td>0.90%</td>
<td>0.56%</td>
<td>- 45%</td>
</tr>
<tr>
<td>Top 0.1%</td>
<td>3%</td>
<td>2%</td>
<td>- 33%</td>
</tr>
<tr>
<td>Top 1%</td>
<td>11%</td>
<td>8%</td>
<td>-27%</td>
</tr>
</tbody>
</table>

Neoliberal era:

<table>
<thead>
<tr>
<th>Income Share</th>
<th>1976</th>
<th>1998</th>
<th>Aprox. % Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 0.01%</td>
<td>0.56%</td>
<td>2.57%</td>
<td>+ 500%</td>
</tr>
<tr>
<td>Top 0.1%</td>
<td>2%</td>
<td>6%</td>
<td>+300%</td>
</tr>
<tr>
<td>Top 1%</td>
<td>8%</td>
<td>15%</td>
<td>+100%</td>
</tr>
</tbody>
</table>

[From Piketty and Saez, 2003, table 2]