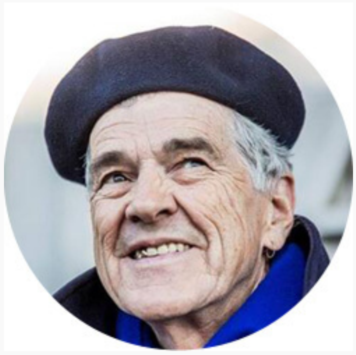
Everything You Know About Neoliberalism Is Wrong

socialeurope.eu/everything-know-neoliberalism-wrong

William Mitchell and Thomas Fazi

20/10/2017

Bill



Mitchell

Let's face it: national sovereignty has become irrelevant in today's increasingly complex and interdependent international economy. The deepening of economic globalisation has rendered individual states increasingly powerless vis-à-vis market forces. The internationalisation of finance and the growing importance of multinational corporations have eroded the ability of individual states to autonomously pursue social and economic policies – especially of the progressive kind – and to deliver prosperity for their peoples. Thus, our only hope of achieving any meaningful change is for countries to 'pool' their sovereignty together and transfer it to supranational institutions (such as the European Union) that are large and powerful enough to have their voices heard, thus regaining at the supranational level the sovereignty that has been lost at the national level. In other words, to preserve their 'real' sovereignty, states need to limit their formal sovereignty.

Thomas Fazi

If these arguments sound familiar (and persuasive), it is because we have been hearing them for decades. Progressives often stress how neoliberalism has involved (and involves) a 'retreat', 'hollowing out' or 'withering away' of the state, which in turn has fuelled the notion that today the state has been 'overpowered' by the market. This is understandable, considering that the political and economic philosophy of vanguard ideologues such as Margaret Thatcher and Ronald Reagan emphasised reduced state intervention, free markets and entrepreneurialism. This was summed up well by Reagan's now-famous phrase: 'Government is not the solution to our problem; government *is* the problem'.

This, however, does not fit the empirical record of the past decades. A quick glance at the rate of state expenditure across the OECD countries, for example, shows that there has been little or no decline in the size of the state as a percentage of GDP; if anything, it has tended to rise (the only real exception being post-2008 Europe). Even supposedly neoliberal governments – such as those of Thatcher and Reagan – did not reduce their public spending and were associated with relatively high deficits. As noted by Miguel Centeno and Joseph Cohen, 'available data suggests that the policy and macroeconomic changes realised under the neoliberal policy regime are more complex than is often assumed'. First and foremost, it illustrates the basic point that core capitalist countries have *not* been characterised by a withering away of the state. Quite the contrary, in fact. Even though neoliberalism *as an ideology* springs from a desire to curtail the state's role, neoliberalism *as a political-economic reality* has produced increasingly powerful, interventionist and ever-reaching – even authoritarian – state apparatuses.

The process of neoliberalisation has entailed extensive and permanent state intervention, including: the liberalisation of goods and capital markets; the privatisation of resources and social services; the deregulation of business, and financial markets in particular; the reduction of workers' rights (first and foremost, the right to collective bargaining) and more in general the repression of labour activism; the lowering of taxes on wealth and capital, at the expense of the middle and working classes; the slashing of social programmes, and so on. These policies were systemically pursued throughout the West (and imposed on developing countries) with unprecedented determination, and with the support of all the major international institutions and political parties.

In this sense, neoliberal ideology, at least in its official anti-state guise, should be considered little more than a convenient alibi for what has been and is essentially *a political and state-driven project*, aimed at placing the commanding heights of economic policy 'in the hands of capital, and primarily financial interests', as Stephen Gill writes. Capital remains as dependent on the state today as it did in under 'Keynesianism' – to police the working classes, bail out large firms that would otherwise go bankrupt, open up markets abroad, etc. In the months and years that followed the financial crash of 2007-9, capital's – and capitalism's – continued dependency on the state in the age of neoliberalism became glaringly obvious, as the governments of the US and Europe and elsewhere bailed out their respective financial institutions to the tune of trillions of euros/dollars. In Europe, following the outbreak of the so-called 'euro crisis' in 2010, this was accompanied by a multi-level assault on the post-war European social and economic model aimed at restructuring and re-engineering European societies and economies along lines more favourable to capital.

Nonetheless, the (flawed) notion that neoliberalism entails a retreat of the state continues to remain a fixture of the left. This is further compounded by the idea that the state has been rendered powerless by the forces of globalisation. Conventional wisdom holds that globalisation and the internationalisation of finance have ended the era of nation states and their capacity to pursue policies not in accord with the diktats of global capital. But does the evidence support the assertion that national sovereignty has truly reached the end of its days? Claims that the current stage of capitalism fundamentally undermines the viability of the nation state often refer to Harvard economist Dani Rodrik's famous trilemma. Some years ago, Rodrik outlined what he called his 'impossibility theorem', which says that 'democracy, national sovereignty and global economic integration are mutually incompatible: we can combine any two of the three, but never have all three simultaneously and in full': simply put, since nation states impose transaction costs, if you want true international economic integration you must be ready to give up national sovereignty (by creating a system of regional/global federalism, to align the scope of democratic politics with the scope of global markets).

Over the years, political forces spanning the entire electoral spectrum have skilfully used Rodrik's trilemma to present neoliberal policies – entailing both a curtailing of participatory democracy *and* of national sovereignty – as 'the inevitable price we pay for globalisation'. Even those on the left that claim to oppose neoliberalism often invoke the impossibility theorem to justify the contention that the nation state is 'finished'. But this is not what Rodrik meant. Contrary to conventional wisdom, he acknowledges that international economic integration is far from 'true'; in fact, it remains 'remarkably limited'. Even in our supposedly globalised world, despite the flowering of global firms and supply chains, there is still significant exchange rate uncertainty; there are still major cultural and linguistic differences that preclude the full mobilisation of resources across national borders, as demonstrated by the fact that advanced industrial countries typically exhibit large amounts of 'home bias'; there is still a high correlation between national investment rates and national saving rates; there are still severe restrictions to the international mobility of labour; and capital flows between rich and poor nations fall considerably short of what theoretical models predict. The same points can be made today (almost 20 years after Rodrik's article was published). Therefore, the trilemma is true from a theoretical standpoint but has little bearing on reality, except as a political tool or self-fulfilling prophecy.

More in general, as we explain in our new book *Reclaiming the State: A Progressive Vision of Sovereignty for a Post- Neoliberal World*, globalisation, even in its neoliberal form, was (is) not the result of some intrinsic capitalist or technology-driven dynamic that inevitably entails a reduction of state power, as is often claimed. On the contrary, it was (is) a process that was (is) actively shaped and promoted by states. All the elements that we associate with neoliberal globalisation – delocalisation, deindustrialisation, the free movement of goods and capital, etc. – were (are), in most cases, the result of choices made by governments. More generally, states continue to play a crucial role in promoting, enforcing and sustaining a neoliberal international framework (though that appears to be changing) as well as establishing the domestic conditions for allowing global accumulation to flourish. At the same time, it cannot be denied that in many respects – the capacity to promote local industries vis-à-vis foreign ones; to run fiscal deficits; to manage the money supply; to impose duties and taxation; to regulate the import and export of goods and capital, etc. – economic sovereignty, including advanced capitalist economies, *is* more constrained now than in the past.

To a large extent, however, this is the result of a deliberate and conscious limitation of state sovereign rights by national elites, through a process known as *depoliticisation*. The various policies adopted by Western governments to this end include: (i) reducing the power of parliaments vis-à-vis that of the executive and making the former increasingly less representative (for instance by moving from proportional parliamentary systems to majoritarian ones); (ii) making central banks formally independent of governments; (iii) adopting 'inflation targeting' – an approach which stresses low inflation as the primary objective of monetary policy, to the exclusion of other policy objectives, such as full employment – as the dominant approach to central bank policymaking; (iv) adopting rules-bound policies – on public spending, debt as a proportion of GDP, competition, etc. – thereby limiting what politicians can do at the behest of their electorates; (v) subordinating spending departments to treasury control; (vi) re-adopting fixed exchange rates systems, such as the euro, which severely limit the ability of governments to exercise control over economic policy; (vii) limiting the capacity of governments to regulate in the public interest, by means of so-called ISDS (investor-state dispute settlement) mechanisms, nowadays included in most bilateral investment treaties (of which there are more than 4,000 in operation) and regional trade agreements (such as the FTAA and TPP); and, most importantly perhaps, (viii) surrendering national prerogatives to supranational institutions and super-state bureaucracies such as the EU.

The reason why governments chose to willingly 'tie their hands' is all too clear: as the European case epitomises, the creation of self-imposed 'external constraints' allowed national politicians to reduce the political costs of the neoliberal transition – which clearly involved unpopular policies – by 'scapegoating' institutionalised rules and 'independent' or international institutions, which in turn were presented as an inevitable outcome of the new, harsh realities of globalisation, thus insulating macroeconomic policies from popular contestation. The war on sovereignty has been in essence a war on democracy. This process was brought to its most extreme conclusions in Western Europe, where the Maastricht Treaty (1992) embedded neoliberalism into the EU's very fabric, effectively outlawing the 'Keynesian' polices that had been commonplace in the previous decades.

Given neoliberalism's war against sovereignty, and the nefarious effects of *depoliticisation*, it should come as no surprise that 'sovereignty has become the master-frame of contemporary politics', as Paolo Gerbaudo notes. By the same token, it is only natural that the revolt against neoliberalism should first and foremost take the form of demands for a *repoliticisation* of national decision-making processes – that is, for more democratic control over politics (and particularly over the destructive global flows unleashed by neoliberalism), which necessarily can only be exercised at the national level, in the absence of effective supranational mechanisms of representation. The EU is obviously no exception: in fact, it is (correctly) seen by many as the embodiment of technocratic rule and elite estrangement from the masses, as demonstrated by the Brexit vote and the widespread euroscepticism engulfing the continent. In this sense, as we argue in the book, leftists should not see Brexit – and more in general the current crisis of the EU and monetary union – as a cause for despair, but rather as a unique opportunity to embrace (once again) a progressive, emancipatory vision of national sovereignty, to reject the EU's neoliberal straitjacket and to implement a true democratic-socialist platform (which would be impossible within the EU, let alone within the eurozone). To do this, however, they must come to terms with the fact that the sovereign state, far from being helpless, still contains the resources for democratic control of a nation's economy and finances – that the struggle for national sovereignty is ultimately a struggle for democracy. This needn't come at the expense of European cooperation. On the contrary, by allowing governments to maximise the well-being of their citizens, it could and should provide the basis for a renewed European project, based on multilateral cooperation between sovereign states.