WORKING PAPER (May 2011)

Have We Ever Been Neoliberal?

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1. Introduction

Having just co-edited a book titled The Rise and Fall of Neoliberalism (Birch and Mykhnenko 2010), what I plan to outline and argue here – that we have never been neoliberal – may seem like a complete volte-face. In some ways it is. In other ways it is merely the extension of previous arguments with the deliberate aim to treat neoliberalism as a topic that remains contentious and more than intriguing in its fuzziness. Perhaps the most significant reason behind the argument I put forward – in the brief space I have - is the need to reconsider neoliberalism as an object of study in light of the recent and ongoing financial mess, what the late Peter Gowan (2009) called a ‘crisis in the heartland’.

Such reconsideration is essential at this juncture in order to explore what it is that underpins the financial crisis. Is it a free-market or neoliberal project, ideology, and policies? Or is it something else that we – as critical scholars – should have been focusing on all along? Have we missed something else that is central in understanding national and international political economy?

The current crisis has been variously framed as a result of both neoliberalism and financial globalisation or global financialisation. On the one hand, for example, Nousios and Tsolakis (2011) explicitly link neoliberalism and financial globalisation in their introduction to a special issue in Competition and Change. This perspective is supported by the likes of Foster and Magdoff (2009: 87) who argue that neoliberalism “reflected to some extent the new imperatives of capital brought on by financial globalisation”. As such neoliberal globalisation can be cast as simply the “most recent manifestation of imperialism”, in which US dominance is underpinned by the extraction of profit from growing overseas financial investments. Similar treatment of financial globalisation are outlined in the work of Susan Strange (1998) and Barry Eichengreen (2006), focused as they are on the dominant position of the USA in the global economy. A counterpoint to this US-focus is Rawi Abdelal’s (2007) book Capital Rules, in which he outlines the crucial role played by French – and not American or British – policy-makers in organising financial globalisation. More broadly, in his new book Jamie Peck (2010: 29) highlights how “Neoliberalism’s expansionist dynamic is rooted in a recursive relationship with short-term, financialized, profit- and market-oriented forms of capital accumulation”.¹ What is at issue here appears to be the enrolment of finance in other processes, whether this is the evolution of inter-state hegemony or as an adjunct to (neoliberal) political-economic restructuring.

¹ Eric Helleiner (2010: 626) describes this as the ‘neo-liberal globalized regime’.
However, other analyses by the likes of Dumenil and Levy (2004) have emphasised that financialisation, as a distinct process, represents part of a neoliberal project through which we are now witnessing the returning hegemony of a financial capital elite. Similarly, David Harvey (2005: 161-2) builds on their analysis to argue that one side of neoliberalism consists of a distinct political project – its end point being the restoration of the “power of economic elites” – underpinned by ‘accumulation by dispossession’ through financialisation. Here and more recently Harvey (2010: 245) argues that financialisation is a means to redistribute wealth and income upwards, largely through the credit system. Jose Gabriel Palma (2009: 833) describes this as the transformation of “capitalism into a rentiers’ delight”. So, on the other hand then, we could posit a connection between neoliberalism and global financialisation; that is, the global extension of finance as a mode or pattern of capital accumulation (Krippner 2005; Pike and Pollard 2010), rather than simply the integration of international financial markets under a single hegemon.

Evidently, elements of both are no doubt relevant when we think about the current financial crisis. However, it is clear that financial globalisation – and its attendant crises – is no new phenomena, nor is it necessarily particular to certain times or places. Giovanni Arrighi (2010[1994]) so wonderfully illustrated this ongoing and global integration of financial markets throughout the history of capitalism in his *Long Twentieth Century*, replete with cycles of financial expansion and crises. Using Fernand Braudel’s phrase, Arrighi pointed out that such financial globalisation (and the systemic crises it engenders) is merely a “sign of autumn” for the dominant capitalist regime; in our case, the USA. What is perhaps unique about our circumstances, then, is the global nature of financialisation, or financial expansion beyond a particular country such as the eighteenth century Netherlands, nineteenth century Britain, or even twentieth century America.

From this perspective, it is important to take any statement by the international economic and financial elite (e.g. Martin Wolf, Alan Greenspan etc.) that this is the end – as opposed to reconfiguration – of “global free market capitalism” as we know it with a pinch of salt (see Helleiner 2010). On a more interesting level, the idea of global financialisation also problematises the idea that the current financial crisis is the consequence of neoliberalism, whether it be an ideological and / or political project. If financial crises have happened before – and they have, repeatedly (see Roubini and Mihm 2010) – then this would suggest that neoliberalism has and does not necessarily play a consequential role in the current crisis.

Even more pertinent an issue to emphasise, in light of this starting point, is the following question. If neoliberalism has played a limited (if any) role in the current crisis, does this mean that neoliberal restructuring and attendant politics and policies are largely irrelevant (i.e. they have limited impact)? Here I want to suggest that we have never actually been subject to neoliberal political-economic restructuring after all, despite what so many scholars have argued. The implications of this suggestion are significant. If we have never been neoliberal, in the analytical and empirical sense I will outline later, we might now actually be more likely to move towards neoliberalism as a political-economic system as a consequence of the crisis. So, rather than a deepening of neoliberal restructuring (Peck et al. 2009a; Brenner et al. 2010a) or ‘neoliberalism 3.0’ (Hendrikse and Sidaway 2010), we might actually be witnessing the birth of neoliberalism. This is perhaps most evident in the transformation of the financial crisis into a fiscal crisis of the state (Grahl 2011; French and Leyshon 2010), as international financial markets force various governments into adopting austerity measures in order that these states can secure and
renew their national debts. Obviously we should remember that this fiscal crisis – as it is now being framed – is the result of government bail-outs of private, financial sector interests; government debt and deficits were not a problem up until this point (EuroMemo Group 2011; Young 2011).

In order to explore these various issues it is important to first examine neoliberalism anew, in particular by focusing on the arguments put forward by neoliberal thinkers themselves and the evolution of their ideas. I will undertake this task in the first section. Then I explore some of the contradictions and tensions in our current understanding of neoliberalism as the cause of the global financial crisis, focusing instead on role of global financialisation. The following section then outlines some of the incompatibilities between neoliberalism and global financialisation (if not financial globalisation). I then conclude.

2. Thinking About Neoliberalism Anew

Although a question such as ‘what is neoliberalism?’ appears simple, it is far from easy to answer. There has been a growing analytical debate about neoliberalism since the 1980s trying to answer this very question; this debate has exploded since 2000 (see Peck 2010: 13). The proliferation of scholarly analyses has not, however, provided us with a clear-cut and unambiguous definition that can be variously applied to the diverse array of theories, policies, and politics that have been associated with neoliberalism. In fact, the very process itself – that is, political-economic restructuring (Peck and Tickell 2002; Brenner et al. 2010b) – has been criticised for amalgamating a number of distinct and different processes (e.g. deregulation, privatisation, liberalisation, etc.) into one over-arching framework (Larner 2003). From a more ascerbic perspective, Clive Barnett (2009: 269) decries the way that neoliberalism has “taken on the aura of grand theoretical terms” in human geography. Although he paints the debate in rather ‘straw-man’ terms, Barnett does have a point; neoliberalism is not one thing or another, it is many things to many different people, at different historical times and at different times in their personal lives. The historian Ben Jackson (2010: 130) highlights this point when he suggests that we have underestimated “the degree to which neo-liberal political thought evolved and mutated over the course of the post-war period”. What we must, therefore, avoid is the designation of neoliberalism as the explanation, rather than the thing that we need to explain (Larner 2003; Phelan 2007)

This wholesale ambiguity and diversity has not, obviously, stopped academics from trying to pin down this slippery beast. However, I do not want to rehash these definitions in too much detail here, as there are plenty of such discussions already out there (e.g. Harvey 2005; Mudge 2008; Birch and Mykhnenko 2010; Brenner et al. 2010b; Peck 2010; Springer 2010: Amable 2011). I will, though, outline some of these scholarly takes on neoliberalism in order to ground the later discussion. As an initial starting point, it is useful to distinguish between treatments of neoliberalism as a particular political-economic project and as a particular political-economic process.

The best example of the former is David Harvey (2005) who argues that neoliberalism is a class project masked by a rhetoric of free markets; it is Janus-faced in that there are distinct utopian and political sides to neoliberalism (see fn3 below). As mentioned in the introduction, Harvey (2005, 2007, 2010) argues that the

2 For example, Barnett (2009: 289) claims that “These [Marxist political-economic] theories are characterized by static idealizations of the contradictions between ‘the state’ and ‘the market’ which actually reiterate the simplistic views they ascribe to neoliberal purists.”
neoliberal project involves a process of accumulation by dispossession, in which financialisation (amongst other factors) enables the deferred extraction of value from a mass of surplus capital sloshing around the world; hence the drive behind expanding credit. None of this entails the necessary retreat of the state: rather, as Panitch and Konings (2009) also point out, it means that the state is implicated in the construction of ‘neoliberal finance’.

The best example of the latter is the work of Jamie Peck and his collaborators. Here neoliberalism or more accurately neoliberalisation is presented as a fragmented and fractured process; it can not be separated from other socio-economic formations, forces or projects (Peck et al. 2009a). Neoliberalism is always, and necessarily, impure, hybrid and parasitical, since a ‘free’ economy and ‘free’ society are simply “unrealizable” (Peck 2010). In fact, Peck et al (2009b: 51) point out that:

“…neoliberalism aspires to create a utopia of free markets, liberated from all forms of state interference, it has in practice entailed a dramatic intensification of coercive, disciplinary forms of state intervention in order to impose versions of market rule.”

In this sense, there is a disjuncture between ideology and practice (ibid). In Brenner et al. (2010b: 3-4), they extend this argument. Here they suggestion that neoliberalisation, in a general sense, can be seen as the “politically guided intensification of market rule and commodification”; neoliberal restructuring is layered and patterned onto “inherited institutional landscape” which, as a consequence of this hybridisation, leads to greater and greater divergence between places. Thus unevenness is inherent in neoliberalisation.

A number of these scholarly accounts link neoliberalism, as a causal process, to changes in national and international financial markets. For example, Wendy Larner (2003) has described neoliberalism as the process of opening up national economies to global actors such a multinational corporations or international financial institutions (e.g. World Bank, IMF etc.). More explicitly, Peck (2010: 29) argues that neoliberalism has exploited “economic turbulence since the 1970s” especially in relation to the “co-constitutive trends like increased capital mobility and exposure to international trade; structural reorientations in favor of shareholder value and financialization”. In a similar vein, Simon Springer (2010: 1028) – who argues that neoliberalism is a view that the “most efficient economic regulator is to ‘leave things to the market’” – claims that the basic starting point for neoliberalism is to “deregulate markets, advance ‘free’ trade and promote unobstructed capital mobility”. However, in none of these arguments is there much evidence to support the association made between neoliberalism and financial globalisation, let alone global financialisation. In order to show how neoliberalism and financialisation are incompatible I want to look at the perspective of the neoliberal thinkers themselves.

Next I want to emphasise two things: first, neoliberalism is derived from a ‘positive’ agenda, as much as a ‘negative’ one, necessitating a ‘strong’ state; and, second, that this positive agenda is driven by the construction of competitive markets and, therefore, entails a particular – and complicated and evolving – attitude towards

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3 Phelan (2007: 332) does argue that neoliberalism is most powerful when it obscures alternatives agendas, “rather than pursuing utopian ambition”. However, I would suggest that these two sides of neoliberalism actually reflect different periods of neoliberal thought: the earlier Hayekian vision of a ‘new’ liberal society, and the later Chicagoan practical focus on dismantling existing institutions.
monopoly. Such evolution of neoliberal thought is something that Jackson (2010) has emphasised, but which has not yet really entered into many other scholarly analyses.⁴

First, the idea of a ‘positive agenda’ is evident in much of early neoliberal thinking (Amable 2011), and most obvious in the Chicago economist Henry Simons’ writings in the 1930s (Van Horn and Mirowski 2009). A positive agenda was an attempt to rehabilitate liberalism or laissez-faire for the twentieth century, especially through the endorsement of the view that the state played a ‘positive’ role in constructing and protecting ‘free’ markets. For example, Simons argued that the state was necessary because:

“…the great enemy of democracy is monopoly, in all its forms: gigantic corporations, trade associations and other agencies for price control, trade unions” (Simons 1934 quoted in Jackson 2010).

And later that:

“There must be vigorous and vigilant prosecution of conspiracy in restraint of trade and, above all, thoroughgoing reform of corporate law” (Simons 1948 quoted in Van Horn & Mirowski 2009).

Accordingly, a ‘positive liberal agenda’ would be based on a ‘strong state’ and ‘free economy’, endorsing state regulation and redistribution. With the exception of Ludwig von Mises,⁵ other leading neoliberal thinkers largely agreed with these ideas, supporting the notion that the state creates the institutions necessary for ‘competitive order’ and markets to function (Henry 2010; Jackson 2010). Thus early neoliberalism was not antithetical to state intervention or a welfare state,⁶ rather it sought to critique and present a counter position to socialist central planning (Henry 2008). The state, in turn, would play a crucial role in ensuring the operation of competitive and, therefore, free markets.

Second then, it is not unusual that during the 1930s and 1940s other neoliberal thinkers, such as Friedrich von Hayek, Milton Friedman and Aaron Director, agreed with Simons’ views about the dangers of corporate monopoly (Cockett 1995; Van Horn 2009; Van Horn and Mirowski 2009). Many of these early neoliberals were critical of concentrations of economic power, not simply government power, and sought to highlight the positive role the state could play in creating and fostering competitive markets by eroding private monopoly (Henry 2010). For example, in The Road to Serfdom, Hayek (2001[1944]: 200) claims that the:

“…impetus of the movement towards totalitarianism comes mainly from the two great vested interests: organized capital and organized labour”.

⁴ There are exceptions, of course: some like Peck (2008) have outlined intellectual histories of neoliberalism, whilst others like Van Horn (2009) and Van Horn and Mirowski (2009) have explored the changing histories of neoliberal views themselves. See also Jackson (2010).

⁵ Ludwig von Mises was characterised as an unreconstructed (and unreconstructable) laissez-faire liberal by many of the early neoliberal thinkers; a ‘paleo-liberal’ to use Rustow’s term (Jackson 2010: fn14). According to Peck (2010), this paleo-liberal perspective actually came to dominate the ‘second’ Chicago School led by Milton Friedman.

⁶ Jackson (2010) points out that Lionel Robbins and Jewkes actually helped to draft the 1944 Employment White Paper for UK government, in which the government committed itself to maintain full employment.
Hayek’s view was similar to Friedman who argued that:

“The state will police the system, it will establish the conditions favorable to competition and prevent monopoly” (Friedman 1952 quoted in Peck 2010).

A view he reiterated a decade later:

“The first and most urgent necessity in the area of government policy is the elimination of those measures which directly support monopoly, whether enterprise monopoly or labor monopoly … Both should be subjected to the anti-trust laws” (Friedman 1962 quoted in Caldwell 2011).

Even into the 1970s there were neoliberals who supported constraints on monopoly, as these examples illustrate:

“It is also necessary that their [laws] positive content be such as to make the market mechanism operate satisfactorily. This requires in particular rules which favor the preservation of competition and restrain, so far as possible, the development of monopolistic positions” (Hayek 1973 quoted in Caldwell 2011).

“… the real antipode to liberty today is the existing Corporate Monopoly Welfare-Warfare State … it is precisely Big Business that is largely responsible for the twentieth century march into aggressive statism” (Rothbard 1973 quoted in Caldwell 2011).

What becomes evident, however, is that from the 1950s onwards there was a change in attitude towards corporate monopoly, predominantly within the Chicago School. For example, Van Horn and Mirowski (2009) link this change to the Free Market Study (1946-1952), which emphasised public regulation as more ‘dangerous’ than corporate monopoly.

This evolution of neoliberal thinking becomes more evident during the 1960s and 1970s as an increasing amount of time is taken up with the study of anti-trust regulation, largely in support of large corporations. Caldwell (2011) argues that this shift arose from the findings of the Free Market Study and Anti-Trust Project (1953-1957) carried out at Chicago, which found that level of regulation of industry deemed necessary in 1930s and 1940s “to control monopoly had been substantially overestimated”. The concern with monopoly evolves into a concern with the government sanctioning of monopolies, rather than the distortion of markets through private monopoly power. As Will Davies (2010) illustrates in his fascinating article, this is evident in the influence that the Chicago School had on US competition policy during the 1970s and 1980s. So, even though Chicagoleans like “Stigler continued to advocate a policy of industrial de-concentration through the 1950s and 1960s, and most leading Chicago economists followed suit”, others at Chicago such as Aaron Director took on anti-trust regulation from the 1950s onwards (Davies 2010: 71-2). In reformulating monopoly, these neoliberals used transaction cost economics to justify monopolies; e.g. large corporations, benefiting from the efficiencies of hierarchical organisation, could provide consumers with cheaper goods than ‘free’

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7 These neoliberals were largely based in the Law and Economics Programme.
market transactions. Hence monopolies could be more efficient than markets and therefore justifiable.⁸

So, Van Horn and Mirowski (2009) argue that from the 1950s the ‘second’ Chicago School took up the task of supporting corporate monopolies, in contrast to the earlier concern in the 1930s and 1940s with the concentration of ownership and power (Jackson 2010). This would imply that the neoliberal tendency, as Macartney (2011) calls it, towards oligopoly, socialised risks and privatised returns is not an essential aspect of neoliberal thinking, but part of the evolution of neoliberal thought. Furthermore, it illustrates the extent to which neoliberals have adapted to their context (e.g. power of large corporations), rather than sought to adapt their context to their perspective as is often argued.⁹

As the objectives of neoliberals shifted in the latter half of the twentieth century (see Van Horn 2009; Van Horn and Mirowski 2009; Davies 2010; Jackson 2010), the evolution of neoliberal thinking has turned their own theoretical arguments on its head. For example, with growing support for large corporations as efficient market actors providing consumer benefits through falling prices, the best way neoliberals could support this corporate expansion was – as earlier neoliberal’s themselves pointed out disapprovingly – to support government intervention in the economy. Not just limited intervention either, but large-scale intervention, whether in the form of regulatory interventions or financial underwriting. Without government intervention monopoly would be eroded (Rubinfeld 2008). In part this intellectual and ideological reversal is embedded in neoliberal thinking from the start as Raymond Plant (2006) points out; policies against monopoly contradict the very idea of market rationality that underpins those monopolies in the first place (Sivaramakrishnan 2009). This perhaps explains why John Henry (2008: 218) goes so far as to argue that:

“Now, as a practical policy, laissez faire is only honored in the breech. This has always been the case. It is a useful ideology for providing a façade under which large corporations – that certainly violate every underlying assumption on which the free market optimizing conclusions are reached – are increasingly organizing the world in their own interests”.

What we might want to remember from this brief discussion is that neoliberalism – as identified with Austrian, German and Chicago schools of economics – has not necessarily “been transformed from an ideology into hegemonic common sense”, a point that Barnett (2009: 270) rightly makes. Instead, it is important to remember that neoliberalism is an evolving set of ideas, theories and normative positions that has not settled down and continues to spin (or dance) in the wind. Indeed, it would not be analytically or empirically adequate to argue that we have never been neoliberal because neoliberalism can never exist because it is theoretically (or normatively) wrong; that is, it is never successful, merely destructive. We have to take account of neoliberal arguments on their own ground, as it were; we

⁸ Rubinfeld (2008) suggests that focus of antitrust debates turned from the ‘structure of an industry’ (1950s and 1960s) towards strategic behaviour (1970s onwards). The Chicago School influence meant that monopoly was recast as less of a problem because monopolies can still be efficient (also not likely to last and barriers to entry less likely to play significant role unless supported by government.). In fact, demand-side monopoly can create significant efficiencies and benefits for consumers (e.g. MS Office).
⁹ Another take on this evolution might be that neoliberalism, as the transformation of the state and not its hollowing out, consisted of an ideological backbone provided by the Austrian School and more practical policy advice (e.g. deregulation, anti-trust etc.) provided by the Chicago School (Madra and Andaman 2010).
have to look at the ideas put forward by neoliberal thinkers in order to understand what neoliberalism – as a political-economic project – is, what it became, and what it ought to be. We have to understand this evolution of neoliberal ideas in order to examined the contradictions and tensions in our current understanding of neoliberalism.

3. Global Financialisation, Neoliberalism and the Global Financial Crisis

3.1 (Dis-)organising the Global Economy?

A common misunderstanding about neoliberalism – as theory, project or process – is that it entails, necessitates even, the hollowing out or withering away of the state. The neoliberal assault on state intervention, which was embedded in the political manifestos – if not policies – of vanguard politicians such as Reagan and Thatcher (Cockett 1995), is reproduced in more recent, popular critiques and denunciations of our current political-economic system as Amable (2011) illustrates (if somewhat selectively). This is not to suggest that previous scholarly work, however, has failed to acknowledge the important (and positive) role of the state in ‘neoliberal’ restructuring; far from it as the work of the likes of David Harvey (2005), Raymond Plant (2009), Jamie Peck (2010) and many others testifies. It is just that the emphasis on state retrenchment and public spending cuts runs counter to the arguments of neoliberal thinkers’ highlighted above, and, furthermore, hides the expansion of the state during the so-called ‘neoliberal era’. There are a number of specific illustrations of this expansion of the state, and few of its erosion or eradication. I will highlight two specific examples here.

First, governments around the world have not reduced their expenditure, as might be expected in light of monetarist emphases on tightening the money supply. In fact, Richard Cockett (1995: 314-6) points out that the Thatcher government failed dramatically to cut public spending, with levels of spending the same in 1990 as 1979: some areas of government, such as health and social security, had actually witnessed significant (e.g. 35%) real-terms increases during this period. On the other side of the Atlantic, the national debt tripled during the Reagan Administration in the 1980s, going from $909b to $3.2t as a consequence of increasing expenditures on welfare entitlements (e.g. Social Security, Medicare etc.) and military spending (Gordon 1998: 166-7). More significantly, Gordon (1998) points out that the US national debt effectively doubled in real terms since inflation was being reigned in at the same time.

The trend of rising government expenditures was not new or restricted to Anglo-America, as Susan Strange (1998: 191) points out; for example, average state spending across the advanced economies rose from 15% of GNP in 1913 to 27% in 1960 and 45% in 1996. Similarly, Cahill (2010) claims that there has been no decline in the size of the state across OECD countries between 1980 and 1996; government expenditure actually increased, whilst privatisation was outstripped by the establishment of new regulatory agencies. Obviously this illustrates the basic point that government spending has not declined as a consequence of neoliberal theories and policies. Whether or not these increases represent a significant weakness, as Strange argues, is another issue. We can consider this point by looking at the changing regulatory role of the state.

Second then, neoliberalism is often aligned with deregulation, at least during the ‘roll-back’ phase in the 1980s (e.g. Peck and Tickell 2002). This runs counter to the arguments of Arrighi (2010[1994]), amongst others, that capitalism is dependent
on state power for its emergence and, more importantly, continuation. For example, according to Abdelal (2007) US hegemony following WW2 has been largely driven by bilateral and unilateral trade and capital liberalisation, not the formation of new global and multilateral arrangements. This ‘ad hoc’ globalisation was increasingly challenged by a more ‘managed’ globalisation promoted by European policy-makers in the 1980s and 1990s. Even the more ad hoc form of globalisation promoted by the USA, however, has not involved the withdrawal of the state or any appreciable decrease in regulations. For example, the sociologist Donald MacKenzie (2005: 569) claims that financial markets are now the “most highly regulated markets in history”. Panitch and Konings (2009: 68) use these claims to support their view that “Neoliberal practices did not entail institutional retreat so much as the expansion and consolidation of the networks of institutional linkages that sustained the imperial power of American finance.” In fact, they continue by arguing that “neoliberalism and financial expansion” have embedded “financial forms and principles more deeply in the fabric of American society.” However, there is no necessary reason to assume that neoliberalism led to this financialisation in America or anywhere else.

What has been evident since the inception of global financial regulation with the Bretton Woods regime in the 1940s is that there has been an erosion of national control over financial capital mobility because of the emergence of a ‘state-less’ international financial market, which has nothing to do with neoliberalism in practical, policy or political terms. This concerns the development of so-called ‘Euromarkets’, which had been tacitly supported by the UK from the late 1950s onwards (Helleiner 2010). These Euromarkets “consisted of [currency] transactions based in currencies other than that of the host country” and were initially centred in the City of London (Abdelal 2007: 7). The British government allowed this market to develop unregulated leading to their enormous expansion over the next 40 years. In 1959 the Euromarkets represented $200m in transactions; this rose to $1b in 1960, $3b in 1961, and $46b in 1970 (Shaxson 2011: 90-2). By 1975 more money was traded on the unregulated Euromarket than the “entire world’s foreign exchange reserves”, but the real growth happened in the 1980s when it expanded from $500b in 1980 to $2.6t in 1986 (ibid.: 92).

What this has meant, according to Arrighi (2010[1994]: 308), is not only that ‘world liquidity’ is increasingly outside the control of national governments, but also that countries are under pressure “to manipulate the exchange rates of their currencies and interest rates in order to attract or repel liquidity held in offshore markets”. So, for example, in 1974 the US government removed capital controls in response to such pressures. In this scenario, international trade features as a bit player; as early as 1979 annual transactions on the London Eurodollar market were six times the value of world trade, which rose to 25 times in 1986 (ibid.). Nowadays Shaxson (2011: 8) claims that “85 per cent of international banking and bond issuance takes place in the so-called Euromarket”, which he describes as a stateless offshore zone” where there are no reserve requirements.10

These financial markets have no reserve requirements, which means that they can effectively create infinite capital. The extent of these transactions, therefore, pales into comparison when we consider that the Euromarkets are beyond the control of both central banks and the international financial systems like Bretton Woods (Arrighi

10 According to Shaxson (2011), offshore tax havens now account for ½ world trade, ½ bank assets, and 1/3 of foreign direct investment; furthermore, 95% of global finance today is in the secondary market, meaning that it has little to do with direct investment but rather reflects trade in asset ownership.
2010). As Shaxson (2011) explains, since the act of lending alone creates money creating an asset for the financial lender into the bargain, when there are no reserve requirements (e.g. need for certain capital to lending ratio) then an unregulated financial system can keep on creating more and more money.  

What is significant about all this is that global financialisation originates in an unregulated and state-less system, rather than as the brainchild of neoliberal economists or policy-makers. The very idea of deregulation (and market discipline) is, therefore, one of the most persistent ‘myths of the neoliberal era’ (see Konings 2009; Panitch and Konings 2009). Dominant deregulatory discourses, often associated with neoliberalism, do not actually correspond to ‘neoliberal practices’ which entail “construction of new institutional mechanisms of control” (Konings 2009: 110) in response to the expansion of international financial markets. According to Konings (2009: 111), these mechanisms illustrate how “regulators created new policy channels that gave them more grip on the direction of financial flows and their rate of expansion, and the state has been much more consistently capable of using capital markets to finance deficits”. What this has meant is that even though governments cannot control financial markets, they have been able to embed economic policy in global financialisation. So, for example, the “connectivity of the financial system came to serve as an effective transmission channel for monetary policy that allowed the Federal Reserve to promote and manage financial expansion”, meaning that the US state “acquired a definite capacity when it came to keeping financialisation going” (ibid.: 121). Governments can no longer control monetary policy – i.e. the expansion of the money supply – because unregulated financial institutions can now print money, effectively, at will (i.e. create credit), but they can ensure that finance is extended further and further into our lives.

What is distinct and new about global financialisation then – and puts it in conflict with neoliberalism – is the emergence of non-state financial market that has been endorsed by different national states at the same time that it has eroded the same states’ room for manoeuvre. This global financialisation does not, however, arise as a consequence of neoliberalism. It is distinct and, in fact, in conflict with key neoliberal perspectives, especially monetarism. It represents a shift in the ‘policy trilemma’ that countries can two out of three objectives from the following: fixed exchange rate; free capital mobility; and autonomous monetary policy (Ferguson 2002: 328). It would seem that the rise of unregulated international financial markets has effectively led to the collapse of an independent and autonomous monetary policy.

What is interesting about this development is that it would appear to have originated in what Mark Blyth (2002) and others call the ‘embedded liberal’ system instituted after WW2. The Euromarket has its origins in the expansion of international trade supported by this post-war regime; as international trade increased, there was a need to transact in different currencies which was restricted by capital controls. The need for access to ready funds, both to trade and for investment, encouraged the expansion of the Euro-currencies. This, in turn, meant that governments faced growing inflationary pressures that could not be alleviated without deregulating capital controls. The resulting global integration of production and services had a reversal effect; it created deflationary pressures on workers and wages through the threat of outsourcing overseas and competition at home from foreign firms. Such  

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11 Shaxson (2011: 89) links the Mont Pelerin Society to this emerging financial system arguing that it was “the invisible financial counterpart of the Mont Pelerin Society’s ideological insurgency”. However, there is little evidence to show that there was a relationship between the creation of the Euromarkets and neoliberalism.
deflationary pressures provided financiers with a huge fillip because they meant not only that inflation reduction stopped eroding the value of their loans, but also led to rising asset prices as deflationary pressures increased their real term value. None of this, it has to be said, necessarily involved neoliberal policies or restructuring.

3.2 Institutionalising Inflation Control through the National Debt

One of the key signifiers of neoliberalism as a political-economic project or process of restructuring is the focus on monetarism, namely the emphasis on monetary policy as a mechanism or tool to control inflation. Monetarism was conceived as a theory explaining inflationary pressures brought about by a lack of control of the money supply, and is closely associated with the Chicago School economist Milton Friedman who had carried out empirical work linking inflation to the money supply in the USA (Greider 1987; Cockett 1995). It represents a shift in perspective away from the use of fiscal policy by governments (i.e. Keynesianism) to stimulate or dampen economic growth, and a turn towards creating a stable economic context in which business can operate (Peet 2007). From a monetarist perspective, businesses and consumers need to be able to know how much something will cost next year in order to be able to prepare for any changes, rather than face uncertainty. In this sense monetarism is contrasted (and contrasts) with Keynesian demand management which sought to control inflation through price and wage controls (Shutt 2009).

There are three interesting aspects of this emphasis on monetarism as a core element in understanding neoliberalism. First, the fact that monetarism and monetarist policy-making precedes the neoliberal programmes pursued by the likes of Thatcher and Reagan. Second, the evidence that (some form of) monetarism is actually incorporated into pre-existing political preferences, as happened in the UK under Thatcher, rather than driving those preferences. Third and most importantly, that monetarism simply failed or was unworkable as a policy objective. The reason for this failure is linked closely the expansion of the national public debt during the 1970s and 1980s in countries like the UK and USA and, consequently, with the process of global financialisation.

First, the starting point of monetarism is that the quantity of money in an economy is the driver of inflation, and since governments control the quantity of money through the central bank they are responsible for inflation. What is interesting about the turn to monetarism as a new explanation for the problems of the 1970s is the way that this ‘monetarist turn’, as it were, not only preceded the quintessentially ‘neoliberal’ governments of Thatcher and Reegan but was not even reflected in the policies pursued by these governments at the time. For a start, concerns with inflation and money supply produced a shift in the earlier UK Labour government’s policies in the mid 1970s, especially following the turn to the IMF for a loan in 1976 to resolve the balance of payment crisis caused by an overvalued currency (Peet 2009: 79; also see Fourcade-Gourinchas and Babb 2002). Notwithstanding the fact that Britain was the heaviest user of IMF funds in the institution’s first 25 years, this time the Labour government acceded to IMF conditions demanding “cuts in public expenditure, including many vital and popular social programs … together with the announcement of fiscal and monetary targets and a promise not to impose import controls” (Peet 2009: 81). The Labour government effectively put monetary policy top of the political agenda and replaced Keynesian policies into the bargain (Cockett 1995: 154, 187). There was a particular concern with public spending cuts and budget deficits,
illustrated by the introduction of the Public Sector Borrowing Requirement (PSBR) measure in the same year, 1976 (Ferguson 2002: 137). Over in the USA, a similar trend is also evident with the key appointment of the monetarist Paul Volcker as Chair of the Federal Reserve in 1979 before the Reagan administration (Greider 1987). This led to a dramatic shift in policy placing an emphasis on inflation control above all else, creating the so-called ‘Volcker shock’ (Harvey 2005: 23-4).

Even the contrast between monetarism and Keynesianism used to justify these changing policy priorities was problematic, however. It ignored the historical evidence, outlined by Niall Ferguson (2002: 127-8), that previous British governments were not characterised by deficit spending; instead, in the period 1948-1972 there was only one deficit year in 1965 and the only ‘Keynesian’ budget was actually in 1972. The contrast with Thatcher’s government is stark: her administration ran deficits in most years except 1988-1990, although the deficits were largely disguised by the proceeds of privatisation and decreasing capital expenditure (ibid.: 128-9).

Second, what becomes evident is that monetarism, as one critical element in the ideas underpinning the neoliberal counter-revolution (Blyth 2002), ends up being incorporated into pre-existing political preferences rather than driving those same preferences. For example, Thatcher’s economic adviser Alan Budd claimed that:

“The Thatcher government never believed for a moment that [monetarism] was the correct way to bring down inflation. They did however see that this would be a very good way to raise unemployment. And raising unemployment was an extremely desirable way of reducing the strength of the working classes” (quoted in Palma 2009: 837).

As such monetarism was aligned with party political interests rather than as a principle in its own right (see also Harvey 2005: 59). In her book The Politics of Free Markets, Monica Prasad (2006: 113) argues that monetarism fitted the “traditional Tory concern” with public spending, “or was forced to fit into it when it did not”; monetarism was, in one sense at least, compatible with existing political preferences. It was linked explicitly to public spending, a perennial concern of the Conservative Party, especially in the shape of the PSBR since it was assumed that public deficits would lead to higher interest rates and therefore to a growth in the money supply (ibid.: 106). This assumption sometimes even flew in the face of neoliberal thinking, as Milton Friedman’s own testimony to the House of Commons disavowing a link between inflation and the size of the public deficit illustrates (ibid.: 108). Thus monetarism was instituted not as a driver of policy, but as an adjunct to existing political preferences that focused on specific concerns with public spending and public deficits.

Third and most important for the discussion below, several scholarly analyses of monetarism agree that it was a failure as a policy, or was simply unworkable. The reason for this failure is linked closely the expansion of the national public debt during the 1980s in countries like the UK and USA and, consequently, with the process of global financialisation. Niall Ferguson (2002: 165), for example, argues

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12 Prasad (2006) also discusses another interesting case where a supposedly ‘neoliberal’ process precedes the neoliberal revolution instituted by Ronald Reagan; that of deregulation. She argues that deregulation became popular in the 1970s as part of an anti-business drive against monopoly and regulatory capture; this deregulatory phenomena was then redirected by Reagan towards pro-business objectives.
that monetarism was compromised from the outset since the new focus on monetarism was meant to move away from use of interest rates to direct control of monetary aggregates (e.g. M1, M2, M3 – see Greider 1987). However, these targeted aggregates changed as a consequence of financial deregulation. In a recent and fascinating article, Geoff Mann (2010: 9) also points to the same problem. Central banks have to choose specific targets that are not necessarily easy to influence (or can only be influenced indirectly); by the early 1980s monetarist arguments lost favour “since a monetary aggregate the central bank could control with any precision proved elusive”. Monetarism was replaced by ‘quasi-’ versions that centred on ‘inflation-targeting’ and interest rates, where the latter is meant to control the former (ibid.: 10). Thus monetarism has not been instituted in the form advocated by neoliberals like Friedman – it was a “theoretical failure” according to Ferguson (2002: 165) – even though the monetarist emphasis on inflation now influences government and central bank policy-making.

The reasons for the failure of monetarism closely relate to the reasons for the popularity of the inflation emphasis in monetarist theory, namely their relationship to global financialisation. On the one hand, monetarism was unworkable, according to Harry Shutt (2009: 47), because the theory assumed a ‘natural’ rate of economic growth, whilst financial deregulation meant that private banks essentially took control of money supply through their lending practices. This left interest rates as the only way to control the supply of money and thereby inflation, but this damaged the ‘real’ economy and added to government debt. What is interesting here, as Shaxson (2011: 130) points out, is that:

“Monetarist theories of tackling economic problems by focusing on the money supply were coming into vogue just as the Euromarkets, lacking regulation and official checks on banks’ abilities to create money out of thin air, were starting to disrupt the Fed’s [and other central banks’] efforts to control that very money supply.”

So, unlike Shutt’s argument, it was not simply financial deregulation that played a role, it was the emergence of the state-less Euromarket that meant governments and central banks could no longer control the money supply, and therefore could not institute monetarism as a neoliberal policy.

In this scenario, it is no longer the monetary theory of Friedman and others that is used to control inflation – i.e. government control of money supply – since governments have lost the capacity to curb the expansion of credit in unregulated financial markets (e.g. Euromarkets). Instead, governments are left with interest rates as the key mechanism for influencing inflation; in turn, governments have become more reliant on open market operations (OMO) and the sale of government bonds to determine interest rates, which means they are increasingly reliant on financial markets. This is because OMO concerns the sale of government bonds on these markets, which enables a transfer of capital liquidity between the central bank and private banks, producing a multiplier (or de-multiplier) effect as a consequence of reserve requirements (Mann 2010: 6). Governments are thereby tied to financial markets and constrained by the needs (e.g. stability) of financial market traders whose decisions can cripple government spending, as evident in the European Union during 2010-11 (Young 2011).

There are at least two implications that this relationship between public debt (from the sale of government bonds) and inflation control has, which cannot be
explained within an analytical framework emphasising neoliberalism as either a driver or effect of policy regimes.

First, there is an interesting relationship between borrowing on the bond markets, which has been around for several centuries (Ferguson 2002), and public debt. Public debt can provide a country with a real advantage, in terms of increasing the ability of government’s to spend, as highlighted in the work of Bruce Carruthers (1996) on the origins of the English (then British) national debt in the aftermath of the ‘glorious revolution’ in the seventeenth century. The public debt ties the creditors to the success of the debtor nation, enrolling this (national) financial elite in the ‘success’ of the state (and not just the country). In contrast, then, to the public spending fears evinced in British Conservative Party policy (Prasad 2006), public debt and government deficits are not necessarily problematic even if they may inhibit the ability of governments to pursue a monetarist agenda. What it does mean, in short, is that governments need to keep international fanciers happy, on the one hand, and that international financiers become tied to the continuation of these governments so that they can repay their debts, on the other hand. However, what became a problem for these international financiers was the rising level of inflation during the ‘golden age’ (1947-1975) following WW2, since this eroded the value of returns on government bonds, sometimes even turning them negative (Ferguson 2002: 175).

Second, in this sense a ballooning public debt is not necessarily a problem because it can be financed more effectively through bond markets than by printing money, which leads to inflationary pressure. This helps explain why annual, aggregate borrowing requirements across OECD countries has risen from $100b in the 1970s to $650-700b in the 1990s (Shutt 2009: 112). Furthermore, certain countries have had significantly higher levels of borrowing. According to Arrighi (2010[1994]: 327), for example, the level of public debt and budget deficits in the USA during the Reagan era respectively rose from $74b and $1t in 1981 to $300b and $4t by 1991; this meant that interest payments represented around 15% of the total Federal budget. However, the greater the debt, the more international financiers are tied to the success of the state, even if the state is stuck in a process of perpetual debt expansion. Increasingly, however, governments have been forced into adopting shorter-term bond financing; the average maturity of US public debt, for example, has fallen from 60 months in 2000 to 50 months in 2009 (Roubini and Mihm 2010). This has meant that governments are more reliant on short-term bond financing and the rolling-over of debt, which is far more sensitive to the manipulation of nominal interest rates and means governments are less able to use inflation a mechanism to effectively ‘default’ on their debt (Ferguson 2002). All this means that the growth in public debt has underwritten the expansion of global financialisation.

In summary, a neoliberal version of monetarism has not been institutionalised by governments; in fact, it proved unworkable from the outset since it no longer reflected the context of (unregulated) international financial markets on which different countries became dependent. The increasing use of bond markets as the source of government financing has enabled countries to curb inflation at the expense of rising deficits financed by the very same bond market. These resulting rising deficits have meant that governments now need to borrow more often from the financial markets, but at higher ‘interest’ levels because inflation can no longer be used as a ‘default’ mechanism (Ferguson 2002). Consequently, governments are caught in a vicious or virtuous cycle – depending on your point of view – in which

13 In constant 1994 dollars.
they have to increase government spending and their borrowing from financial markets in order to re-finance their pre-existing debt. All this public borrowing has greatly increased the money supply through fractional reserve banking (Mann 2010), although this is centred on private financial institutions rather than government action. What this has meant, according to Konings (2009), is that monetarism has failed to provide governments with monetary control but that the excess liquidity that government borrowing entails has not led to increasing inflation. Rather the excess capital simply stayed in the financial sector where interest rates drove up asset prices as inflationary pressures have been redirected to asset markets (ibid.). The major result of all this is that governments have only managed to curb inflation by selling government bonds, thereby shifting the money supply of private – and often unregulated – financial institutions; in turn, this has led to a massive expansion of public debt and deficits as a mechanism to control the ‘money-making’ capacities of banks etc. Thus inflation control has been institutionalised through the expansion of the national public debt rather than monetarist policies.

3.3 Facilitating and Insuring Asset Bubbles

Although governments lost control over monetary policy, or at least money supply, to international (and unregulated) financial markets before monetarism had even been institutionalised, the state retained a key role in supporting global financialisation through the expansion of public debt. This role, however, is contradictory and necessitated ongoing, deliberate and protracted government intervention in the economy. Whereas the expansion of the public debt, discussed above, has enabled the expansion of financialisation into new areas of social life, it is the restructuring of national and international financial regulations and policy-making that has extended financialisation around the world. There are two key aspects of this regulatory restructuring worth noting. First, the state retains and has extended its role as lender of last resort; and, second, the state increasingly facilitates asset value inflation and, consequently, financial bubbles. So the state has a ‘positive’ role in driving economic growth, as neoliberal thinkers wanted, but it is not as a supporter of competition or competitive structures; the state has, rather, taken on the dual and contradictory role of financial bubble facilitator and insurer.

As became evident in the recent crisis with all the talk of private financial institutions becoming ‘too-big-to-fail’, the state plays a particularly important role in effectively insuring the actions of private sector financial businesses as a ‘lender of last resort’ (Roubini and Mihm 2010). This is not a new phenomenon since there have been numerous financial collapses throughout the history of capitalism that have been rescued by the state (Harvey 2010). However, what is new is the size and effective monopoly position that financial institutions now have; they cannot be allowed to fail without significant system destabilising effects. Since the state is still ‘national’, the bailing-out of financial institutions is still place-specific; that is, bail-outs have to be ‘national’ even though crises may be international in dimension (Mann 2010). This creates certain tensions. For example, as the EuroMemo (2011) group point out, the recent Greek public debt crisis results from Northern European banks financing Southern European governments. Any default by the Greek government would therefore impact on the profit-line of German and French banks, whilst any government bail-out impacts on the Greek population. This is part of the reason why Geoff Mann (2010: 2) can still claim that the “state’s monetary authority is
contemporary capitalism’s invisible infrastructure”; the other reason being that a central bank’s interbank lending effectively sets the floor for system-wide rates.

Both these factors help the state to prop up financialisation. On the one hand, the lender of last resort role is meant to secure national economies against collapse in case of crises, but it also means that private financial institutions have an incentive to take on far more risk than they would normally (Cooper 2008). On the other hand, it ensures that risks are socialised, whilst profits are privatised; this is especially true when financial deposits are insured by governments against collapse (Roubini and Mihm 2010). More crucially though, the state plays an important role countering deflationary pressures which might lead to the unsustainable expansion of debt, leading to outright defaults (Foster and Magdoff 2009). According to Foster and Magdoff (2009: 17), financial instability results from the need for a “constant cash flow of income”; as soon as this income flow halts, the rest of the financial system collapses into debt-deflation. However, there is a contradiction here. The state has to halt deflationary pressures, so that debts and defaults do not get out of hand, but it also has to halt inflationary pressures (as highlighted above) so that debts are not eroded and countries do not suffer capital flight.

This has led governments to take an active role in facilitating the expansion of financialisation and financial bubbles. However, rather than neoliberalism this active state intervention has been described as ‘privatised Keynesianism’ (Crouch 2009) or ‘house-price Keynesianism’ (Watson 2008, 2010). The increase in government spending and deficits, brought about as a curb on inflation, has underwritten a massive expansion of private capital for investment in various assets, and includes the enrolment of a greater and greater proportion of the population in financialisation (discussed below).

Up until the recent crisis, the state’s inflation control and deflation countering led to an apparent win-win situation in which asset prices – of whatever variety – continued to rise, stimulating further investment in assets fuelled by the expansion of debt and leveraging. As Palma (2009: 833) describes it, the state has been transformed into a “major facilitator of ever-increasing rent-seeking practices of oligopolistic capital”. Oligopoly and monopoly are evident in the heartland of financialisation itself, Wall Street; Gowan (2009: 10) claimed that just five investment banks dominate Wall Street, holding over $4t in assets between them. An ever-wider proportion of the population was also enrolled in this global financialisation, however, through the expansion of housing equity and consumer credit (discussed below). According to Watson (2010: 414) this has created an ‘asset-holding society’ based primarily on the increasing value of housing as an asset. As an asset, housing has provided a new source of collateral for homeowners to leverage ever increasing amounts of debt so that by 2005 “home equity withdrawals peaked at an annualized rate of a trillion dollars” (Roubini and Mihm 2010: 18). The house price bubble that precipitated the current financial crisis, however, has to be situated within the “broader context of ongoing national economic restructuring” that led to less oversight which “ensure [that] general credit expansion facilitates inflationary pressures on asset prices” (Watson 2010: 414, 421)

In countries like the USA and UK, but also more widely,\(^{14}\) the state – of whatever political persuasion – has played a highly constitutive role in creating asset

\(^{14}\) Grahlf (2011), for example, argues that the EU provided support for bank leveraging across EU countries. For example, the largest EU banks’ leverage ratio was 35-1 at the time of the financial crisis, which compared unfavourable with a ratio of 20-1 USA; as a consequence, half of the ‘toxic’ assets actually belong to European financial institutions.
bubbles. As Shutt (2009) and Roubini and Mihm (2010) point out, if governments followed neoliberal tenets then they would not have supported the institutional structures of global financialisation that have emerged and evolved over the last few decades. This not only involves the government underwriting of financial imprudence engendered by the lender-of-last-resort role, but also the way the state has repealed and amended financial regulation during the last two decades. This ‘deregulation’ is not, it is important to point out, necessarily a consequence of neoliberalism; there were other drivers involved, namely the contradictions between unregulated international financial markets and regulated national ones. So, as Panitch and Konings (2009: 70), “It was not neoliberal ideology that broke the old system of financial regulations, but rather the contradictions that emerged within that system”.

The result was financial deregulation and re-regulation stretching back to the 1970s (and before) that facilitated the growth of financial markets. In the USA, this included the creation of the Commodity Futures Trading Commission (1974) as a way to regulate and stimulate derivatives trading in expanding currency and bond markets; such derivatives trading was then extended to US bonds in 1978 and all forms of credit during the 1980s, culminating in the exemption of swap and hybrid derivatives from regulation in 1993 (ibid.: 69-70). The repeal of the 1933 Glass-Seagall Act with the Financial Services Modernization Act (1999) and the Commodity Futures Modernization Act (2000) ended up putting a significant proportion of the financial market beyond regulatory oversight altogether (Roubini and Mihm 2010: 75). It is no wonder that following the repeal of Glass-Seagall, trading in over-the-counter (OTC) derivatives jumped from 2.4 times global output in 1999 to 11 times in 2009 (Palma 2009). Perhaps most significant was the US government’s decision to remove the debt-to-capital ratio for investment banks in 2004 (Turner 2009), leading to surging leverage ratios of 30-1 compared to 12-1 beforehand (Roubini and Mihm 2010: 75). These changes were compounded by the loss of capital controls brought about by the US government’s dependence on international financial markets to finance its growing public deficit and debt, meaning that the Federal Reserve could no longer effectively control asset bubbles (ibid: 83). In turn, the asset bubble simply provided further assets to underwrite lending.

What has happened is that the state has gradually – since the 1960s – been transformed into a facilitator of asset bubbles, on the one side, and underwriter of the financial fall-out from economic crises, on the other side. Amongst the scholarly analyses of this global financialisation process, Alan Walks (2010) comes closest when he describes it as “Ponzi neoliberalism”. However, there is no necessary need to add ‘neoliberalism’ to this description as the former term – Ponzi – would adequately describe what has happened, and been actively supported by various governments around the world. More perniciously, Roubini and Mihm (2010: 175) point out that the US government (amongst others) has effectively subsidised banks “by sanctioning the removal of regulations that would have forced them to value their toxic assets at something approaching real-world market value”. This has meant that governments have kept the flow of new money open, propping up asset values that had been inflated through the compound leverage enabled by financial markets, whilst not even attempting to force bondholders to shoulder the losses they incurred on their risky lending.

3.4 Stagnant Wages and the All-consuming Economy
A final aspect of neoliberalism that is often highlighted in scholarly accounts is the assault on labour and the detrimental impact this has on income and the subsequent turn to consumer debt-financing (e.g. Harvey 2010). What is interesting about these arguments is that the US and UK – two of the countries most closely associated with neoliberalism – had much more antagonistic capital-labour relationships than other countries (e.g. France, Germany) in the post-war period (Prasad 2006). Post-war politics in the US and UK centred on conflict between political parties of the left and right that sought to counteract each other rather than work in concert. The ascendance of Reagan and Thatcher ended this conflict, largely through the direct attack on the opposition’s electoral support base (i.e. labour movement) and the enrolment of workers in the asset-based economy. This shift away from state support for workers and income increases to mechanisms curbing wages and promoting asset price inflation (especially in housing) came to represent an alternative means to ensure individual welfare (e.g. private pensions) through global financialisation (Watson 2008).

It also ensured the expansion of global financialisation through the support for a wholesale shift from an income-based economy characteristic of the post-WW2 ‘golden age’ to an asset-based economy that has characterised the ‘neoliberal era’. This involved not only the use of fiscal and monetary policy to push up unemployment and curb wage increases, it has been accompanied by opening up the US and UK economies to international competitive pressures, stimulating consumption and rising asset values in the process. To support this wholesale shift in the underlying economy, the state has had to provide direct and indirect support for consumption growth. This has included the subsidisation of low (or no) wages through the expansion of the welfare system (direct) and support for the extension of credit to larger numbers of the population (indirect).

First, according to the likes of Harvey (2005) and Dumenil and Levy (2004), the inflationary pressures of the 1970s were resolved by rising unemployment as various governments sought to shift the burden onto ordinary households and workers. This involved significant increases in nominal interest rates; for example, by 1981 the US Federal Reserve had raised interest rates to nearly 20% (Harvey 2005: 23). In this sense, the national debt – as discussed above – was but one mechanism used by the state to control inflation; the other was an assault, effectively, on ordinary workers in an attempt to curb rising wages and wage pressures. This latter mechanism was particularly effective as Harvey (2005: 25) shows with the stagnation of real wages from the late 1970s onwards; for example, in 1973 average US real wage was $15.72 which had fallen to $14.15 in 2000. In 2001 dollars. A collapse in British real wages during the same period is also evident (Harvey 2010: 13). Whilst average wages have stagnated or fallen, those at the top have risen. For example, since the mid-1970s income has been stagnant for the bottom 90% of the US population, having risen an average of 4.2% per year since the mid-1930s previously (Palma 2009: 837). In contrast, the income of the top 1% has risen significantly (4.7% per year) since the 1970s, but had been relatively stagnant up until the 1970s (ibid.). This has created a significant tension within these economies.

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15 In 2001 dollars.

16 A 2006 Citigroup report titled “Plutonomy: Buying Luxury, Explaining Global Imbalances” outlined an economic strategy based on supporting these disparities in income and focusing on the richest 1% of consumers as they have as much income as the bottom 60%. What is interesting about this idea is that support for luxury consumption would effectively support the purchasing of assets since many luxury goods (e.g. art, wine, cars, boats, jewellery etc.) retain their value.
Second, in countries like the USA and UK, most manufacturing businesses and facilities have been outsourced to countries like China where labour costs are significantly lower. Globalisation of this sort (i.e. in goods and services) not only dampens the bargaining power of workers but also dampens inflation as the cost of goods can be kept low (Turner 2009). The globalisation of production has accompanied the increasing dependence of the US and UK on consumption as the main driver of economic growth, despite stagnant real wages. For example, Foster and Magdoff (2009: 131) highlight how consumption now accounts for around 70% of US GDP (2007), up from around 60% in 1960 and 20% in the nineteenth century (Harvey 2010: 175). More generally, the US, in particular, has assumed a crucial role in the world economy as the ‘consumer of last resort’ (Montgomerie 2009). This has resulted from successive American governments in the 1990s and 2000s supporting a strong dollar policy in order to keep imports (artificially) cheap and thereby enable US consumers to expand their consumption of imported goods (Bergsten 2009); similar policies have been pursued by other countries like the UK. Exporters like China have, in turn, kept their currencies devalued against the dollar in order to ensure a ready market for their goods, which has increased the (public and private) debt load of countries like the US and kept interest rates lower spurring further national indebtedness (Walks 2010: 57). However, the effects of fiscal and monetary policy as well as globalisation mean that consumption has had to be directly and indirectly supported through various government policies.

Direct government support has come through the welfare system. So although Foster and Magdoff (2009) argue that the impact of stagnant wages has been offset by the expansion of two-earner households, longer working hours, and growing personal debt, the expansion of welfare spending, even during the supposed neoliberal heyday of the 1980s, has significantly contributed to increasing consumer spending. As noted, the welfare state plays an important role, but it is a role that stretches back beyond the 1970s. Harry Shutt (2009), for example, has argued that a welfare state means people can spend less on necessities (e.g. housing, healthcare, saving etc.) and can therefore consume more. In this sense, the welfare state effectively subsidises low wage levels, even acting as a depressing force in many cases. What is interesting about the role of the welfare state is that it has become a significant stimulus mechanism for governments through direct redistribution (i.e. transfer payments), which has actually increased during much of the later twentieth century. As Peter Jackson (2009: 34) shows, these have increased from 7.1% and 8% of GDP in the US and UK respectively to 10% and 11.9% in 1990 and 11.1% and 13.9% in 2004. Whilst other areas of government expenditure such as capital investment and direct consumption of goods and services have actually fallen in these countries, transfer payments have increased by at least 50% between 1970 and 2004 (ibid.). Here the state has taken over stimulus spending through direct subsidisation of stagnant wages (e.g. tax credits, public housing, health insurance etc.). However, the welfare system has still not been able to make up for the real wage stagnation (and even cuts) in these countries; rather, this has been resolved through an explosion in credit and personal indebtedness.

Indirect government support through financial deregulation, lowered interest rates and the like has led to the expansion of personal indebtedness. In the USA between 1975 and 2005, for example, the level of personal consumer debt increased from 62% of disposable income to 127%, doubling in the space of five years alone between 2000 and 2005 (Foster and Magdoff 2009: 29). Furthermore, between 1980 and 2007, household debt increased from 50% of US GDP to 100% (Gowan 2009),
most of which is driven by borrowing secured on households assets like housing which have been increasing in value, ably supported by the state, creating the so-called ‘wealth effect’ (Brenner 2002). Not only has this led to ‘debt-fuelled consumerism’ as Macartney (2011: 64) points out, it also illustrates how the “central tension within financialized accumulation is that the appearance of a ‘healthy’ capitalism is – in fact – predicated on growing indebtedness”. Nousios & Tsolakis (2011: 6) go so far as to argue that the “alleviation of antagonism between capital and labour” has occurred “through the provision of cheap credit to sustain the purchasing power of labour [which has] only served to accelerate the unsustainable growth of the housing bubble”. Rising asset values underpinned this debt expansion, just as the expansion of credit underpinned the consumer economy on which many countries now depend. Inflation has been held in check by global pressures on employment, curbing wage demands that keeps real wages stagnant (Turner 2009); consumers have had to turn to credit to maintain their purchasing power because of falling interest rates and rising asset values.

4. Financialisation versus Neoliberalisation?

4.1 New Form of Neoliberalisation?

The previous section has highlighted several contradictions and tensions in our current understanding of neoliberalism, especially in relation to global financialisation and the ongoing financial crisis. For a start, in countries like the US and UK the national state continues to play an important role in the organisation (and disorganisation) of the economy, even if state-less financial markets have grown in importance. This has meant that national monetary policy has become inadequate as a mechanism for controlling inflation, being replaced by an expansion of the national public debt. As a consequence of this change, the state has had to take on a dual role as facilitator and insurer of financial bubbles in order to support the wholesale shift to an asset-based economy. The previous income-based economy has, in turn, been eroded through attacks on the labour movement and the opening up of national economies to global competitive pressures to curb wage demands. However, in order to maintain existing purchasing power the state has had to support, directly and indirectly, consumption through the welfare system and personal indebtedness.

What these discussions are meant to illustrate is that the origins of the current crisis are not ‘neoliberal’ in the sense that we commonly hold. That is, the ‘free market’ project to reduce government spending, remove government intervention in the economy, deregulate, retrench the welfare system, etc. (see Fourcade-Gourinchas and Babb 2002; Prasad 2006). Furthermore, it illustrates the importance of global financialisation as a process, which contrasts with the focus on neoliberalisation in many other scholarly accounts (e.g. Peck and Tickell 2002; Harvey 2005; Peck 2010). Some have posited the emergence of a new, more virulent version of neoliberalism. For example, French and Leyshon (2010) argue that we are witnesses to the expansion of “hyper-neoliberalism” in which the public pay for corporate bail-outs through taxation increases, alongside public spending cuts and rising unemployment; here neoliberal rhetoric continues apace, and has not disappeared. Another example is Hendrikse and Sidaway (2010) who argue that indebtedness and austerity make any prediction of the end of neoliberalism premature. Instead we are entering a new phase, or “neoliberalism 3.0”; the ‘Keynesian’ rescue of the banks etc. has simply been
transformed into a fiscal crisis of the state which is then used to justify austerity and
cuts to public expenditure.\textsuperscript{17}

This association between neoliberalism, or neoliberlisation, and
financialisation does not ring true, however, especially in light of the financial crisis.
Even the concept of “neoliberal finance” presented by Panitch and Konings (2009)
does not feel adequate, despite the obvious rigour and depth to their analysis. The
tripolka of neoliberalism, globalisation and financialisation proposed by Foster and
Magdoff (2009) comes closest, but, again, does not do justice to the implications of
global financialisation for our economies. What they point out is that a global
proliferation of monopolistic or oligopolistic multinational corporations and
financialisation of the accumulation process accompanied the slow down in the rate of
growth during the 1970s. It is interesting that they note the expansion of monopoly,
and not simply because it contradicts the early neoliberal arguments against such anti-
competitive arrangements. The underlying logic behind financialisation (or finance
capital) is monopoly; greater and greater concentrations of capital provide more
leverage possibilities that enable higher returns on financial speculation. Furthermore,
financialisation and the shift to asset-based economies mean that competition itself
becomes less relevant as private sector organisations – publicly traded corporations,
private businesses, or whatever – are no longer competing against one another for a
scarce resources or custom; instead they are investing in and speculating on rising
assets values that they all benefit from at no cost to each other.

In this sense, the supposed rigours of neoliberalism (i.e. competition)
contradict the expansion of global financialisation. As Milton Friedman pointed out
himself in the 1970s:

“If I said to you, ‘Here I’ve got a major sector of the economy in which no
enterprise ever fails, no one ever goes broke,’ you would tell me, ‘My God,
there must not be any competition here,’” Friedman said. “That’s correct. The
banking industry has been a highly protected, sheltered industry. That’s
because banks have been the constituency of the Federal Reserve” (quoted in

Nothing has necessarily changed since Friedman uttered those words, as the various
bail-outs, guarantees etc. make evident. The reduction of competition, however, is not
necessarily a consequence of the expansion of monopolies or ever-larger firms
through mergers and such like as Strange (1998) points out, it is because
financialisation makes competition less relevant as a capitalist dynamic. Thus the idea
of neoliberalism driving global financialisation is a misnomer. If anything,
neoliberalism appears to be an ideological discourse that has come to legitimate
financial excess. So, for example, Foster and Magdoff (2009: 87) suggest that
neoliberalism is the “ideological counterpart of monopoly-finance capital”, while
Gowan (2009: 20) pointed out that “while the New Wall Street System was
legitimated by free-market, laissez-faire or neo-liberal outlooks, these do not seem to
have been the operative ideologies of its practitioners”. He further argued that Wall
Street was a “conscious cartel”, and therefore not subject to competitive pressures as

\textsuperscript{17} In an elegant turn of phrase, Hendrikse and Sidaway (2010: 2040) suggest that we are not returning
to the ‘nightwatchman state’ of neoliberalism; “Under neoliberalism 3.0, however, the nightwatchman
has become a private security contractor or a joint venture between an intelligence agency and digital
service provider”.
would be expected under neoliberal tenets. Thus it behoves me now to dissect the various incompatibilities between neoliberalism and financialisation.

### 4.2 Inflation, Public Debt and the International Financial System

Monetarism is closely associated with neoliberalism, especially the views of Milton Friedman (Blyth 2002: 139-141). As I have sought to illustrate above, however, the form of monetarism used to criticise Keynesianism from the 1960s onwards – i.e. targeting M1 aggregates (physical and deposited money in circulation) – was based on an increasingly outmoded perspective of the economy. It was based on several assumptions – e.g. that money supply determines prices, that unemployment was voluntary, etc. – that were grounded in an examination of a particular economic system, namely one driven by industrial capital rather than finance capital. This would explain why there is such an emphasis on the problems of monopoly in the early formulation of neoliberalism (see above), which then falls away later as global financialisation leads to the inevitable growth of monopoly. Global financialisation provides a lever for the expansion of monopoly as finance capital is more easily accessible to larger firms at greater volume, which, in turn, means that “Monopoly is the logical result of competition” itself, according to Foster et al. (2011).

Here the initial development of neoliberalism as an economic perspective was embedded in the ‘autumn’ of British hegemony – evinced in the expansion of British-centred financial capital in the early twentieth century (Arrighi 2010) – and the rising dominance of the USA as an industrial power after WWI. Productive, industrial capital came to assume greater importance as a driver of economic growth than did finance capital, which was associated with a declining world power, as countries around the world closed their borders to capital movements following the Great Depression. However, global financialisation in the form of a state-less, international financial system came to supersede production as the driver of economic growth during the later-mid twentieth century, leading to an expansion of monopoly across industrial sectors (Foster et al. 2011). Consequently, neoliberal thinking has to evolve to remain relevant in this new context and this is when there is a shift in emphasis away from a concern with monopoly (see Davies 2010) and focus on specific form of competition (see Foster et al. 2011). What this illustrates is that neoliberal thinking has not necessarily driven political-economic restructuring, it is driven by it.

I would argue that political-economic restructuring has been driven instead by the emergence and expansion of an international, and state-less, financial system in which the national public debt has assumed a central role in curbing the flows of ‘hot money’ that destabilises economies. As Marx (1976[1867]: 919) pointed out well over a century ago, the public debt is a powerful lever of primitive accumulation, enabling the restarting of economic cycles as they stagnate or reach crisis point. In Arrighi’s (2010[1994]: 243) words, the national debt is a “means of an invisible inter-capitalist cooperation which started capital accumulation over and over again”. This public debt is national, rather than local or regional, reflecting the geography of monetary policy of national states so ably outlined by Geoff Mann (2010). It consists of government bonds bought and sold in open market operations (OMO) as a mechanism to increase or reduce liquidity and set longer-term interest rates; the national state retains a predominant role here that belies any suggestion that it has withered away. During the 1970s, inflation had become a major political issue because it effectively acted as a tax on assets (according to many commentators), while increasing income levels and
debasing the value of debt (Greider 1987). Neoliberal, monetarist policies represented one way to fight inflation, but when implemented they did not necessarily work (see above).\footnote{In 1986, Susan Strange noted that “The end result of ‘monetarist’ policies may easily turn out to be the exact opposite of its ideological intentions. Instead of freeing the private sector and the market economy from the toils of state intervention, it may actually end – as in Mussolini’s Italy – in involving the state more extensively and more permanently in industry and business than it had ever been before” (quoted in Strange 1998: 7).} What they did do, however, is tie the ‘beliefs’ of central banks to the financial markets, especially bond markets (Blyth 2002: 171). The national public debt, on the other hand, became the mechanism used to curb inflation; so, by selling government bonds, countries could reduce liquidity and thereby increase interest rates curbing the inflationary pressures from further spending and investment. What this entailed was a rising national debt, increasing dependence on international markets, and the attendant problems this brought with it.

First, one of the main issues with rising public debt, in the form of government bonds, is the need to maintain currency stability because one of the key risks faced by bondholders is a devaluation of the currency in which the bond is denominated (Hager 2010).\footnote{Sandy Hager (2010) is undertaking a PhD on the political economy of public debt in which he addresses some of these issues directly and which should be fascinating to read once completed.} It is therefore not surprising that Fourcade-Gourinchas and Babb (2002: 538) argue that ‘neoliberal’ measures are often adopted following a balance of payments crisis, since:

“…international finance constituted an increasingly powerful constituency, which could be presumed to have its own set of policy preferences – such as low inflation, balanced budgets, and strict monetary policy managed by an independent central bank”

The key concern of bondholders then is a country’s exchange rate, especially any possibility of the depreciation of the currency in which a bond is held. This then leads to ‘strong’ currency regimes as different countries pursue financial policies that are meant to reassure international financiers. This could include those outlined by Fourcade-Gourinchas and Babb above, but the overall objective in pursuing a strong currency policy is the consequence of deficit spending funded through international markets (see Hager 2010), and not a cause or effect of fiscal austerity as would be promoted under neoliberal principles. So, whilst the argument that neoliberal measures are introduced after balance of payment crises may be appealing, there is no necessary link between neoliberalism and the introduction of measures to shore up currency value. Rather, the introduction of such measures reflects the global expansion of financialisation, as national economies are tied more closely into an international financial system.

Second, the fears about balance of payments and currency devaluation have become institutionalised as drivers of central bank action across several countries, as Blyth (2002) argued happened in the late 1970s and early 1980s with the Federal Reserve. This happened even though it does not necessarily reflect the impact and, more simply, the extent of ‘hot money’ flows into and out of a country. In this sense, it would seem reasonable to assume that international markets are powerful because governments have been and still are so dependent upon them. However, this is not necessarily the case. For example, in French and Leyshon’s (2010) commentary on the current crisis, they discuss the geography of the UK gilts market. They point out that
governments assume high capital mobility and act accordingly, despite the fact that only a decade ago only about 15% of UK gilts were held overseas; this has risen to 30% nowadays, but is likely to have been lower than 15% back in the late 1970s and early 1980s. The geography of the British national public debt is, therefore, precisely that; it is predominantly ‘national’ or ‘domestic’ – around 70% in 2010 – rather than international, but it is treated as if it were international. It should obviously be noted that this is not necessarily reflected across the board in other countries; there are specific geographies to other national public debts as well. For example, Barry Eichengreen (2006: 13) argues that following WW2 the US sold low-yield debt securities abroad and invested in high-yield foreign assets; that is, it bought up these foreign assets on the cheap and that the US imbalance of payments – a problem for other countries (see Fourcade-Gourinchas and Babb 2002) – actually enabled the US to pursue its foreign policy more effectively. Such imbalance of payments issues continues to this day and contributed to the current crisis, according to Bergsten (2009):

“…huge inflows of foreign capital, however, turned out to be an importance cause of the current economic crisis, because they contributed to the low interest rates, excessive liquidity, and loose monetary policies that – in combination with lax financial supervision – brought on the overleveraging and underpricing of risk that produced the meltdown.”

In the Global South, several countries have reacted to previous financial crises brought about by balance of payment issues, have actually led to a new strategy that also contributed to the current crisis (see Roubini and Mihm 2010: 263). The 1997 Asian crisis, for example, had resulted in the imposition of austerity measures by IFIs – as part of the Washington Consensus – on many countries. These Asian countries borrowed from IMF and were forced to restructure their government finances as part of the loan conditions. These countries did not want to go through those painful, austerity measures again and so built up their foreign exchange reserves in order to protect their currencies against another crisis. However, Roubini and Mihm (2010) argue that in building up their predominantly dollar reserves, and current account surpluses, these countries contributed to US current account deficits and the rising value of US assets. What all these examples are meant to illustrate is that the management of the national public debt is not the same across different countries, event those countries that have supposedly pursued similar neoliberal agendas (e.g. US and UK).

Third, there is an interesting possibility then that the emerging international financial markets actually promoted the inflation pressures facing various countries in the 1960s and 1970s through a preference for short-term bonds, as they are supposed to be less impacted by inflation making them more attractive assets. However, as Ferguson (2002: 123) points out, this growth in short-term debt actually led governments to monetize their public debt (i.e. print money to pay for it) leading to inflationary pressures. Inflation helped to cut the national debt (at least as a proportion of GDP) as it acted as an effective ‘default’ on the said debt; that is, it reduced the value of the debt. Furthermore, the expansion of short-term debt instruments meant that countries could actually run deficits since they could call on the financial markets, which were expanding at a phenomenal rate, more frequently in order to fund their domestic policies. What the policy focus on reducing inflation in the 1970s represented was not neoliberal tenets but the interests of large financial institutions,
especially multinational institutions, which sought to limit the ability of governments to default on their national debt through inflation. Such measures had impoverished bondholders and had caused national debts to shrink (proportionately) throughout the post-WW2 era, up until the 1970s (Gordon 1998: 139). However, as inflation was brought under control from the 1970s onwards, at least in the USA, national debt effectively doubled as a proportion of GDP, providing a huge fillip to international bondholders.

What mattered then was the expansion of an international and state-less financial system, which had been driven – in part at least – by the emphasis on international economic activity during the post-WW2 period. As Strange (1998) argues, the growth in international trade and production meant that business needed access to foreign currencies in order to exchange them during trade and in order to borrow them for investment in new facilities. However, two factors – need and risk – impinged on this international activity: first, capital controls on currency made trade difficult; and, second, the threat of exchange rate changes could wipe out any profits companies sought through such international activity. As a consequence of these drivers – and indifference by national government (especially the USA and UK) to the international activity engaged in by their firms – in the 1950s and 1960s the Euromarket emerged outside of both national and international financial regulation. Whether or not this represents a form of ‘ad hoc’ globalisation, as Abdelal (2007) argues, is beside the point; it did represent, however, a growing pressure on the fiscal and monetary policies of national governments, undermining central banks (Eichengreen 2006) and creating a ‘shadow banking’ system into the bargain (Gowan 2009). What is clear, however, is that this emerging international financial system was inimical to neoliberalism, as the latter was based on the ‘positive’ idea of a strong state that was meant to establish competition as the driver of economic (and social) behaviour. In contrast, the international financial system has enabled an expansion of monopoly power (Foster et al. 2011) and the (self-imposed) straight-jacketing of the state (Strange 1998; Blyth 2002), but diverse state strategies and responses to these pressures.

4.3 Efficient Markets and the Asset-based Economy

Controlling inflation is not only closely associated with monetarism, but with neoliberal strategies in general, even after the failure of monetarism as a policy instrument (Prasad 2006; Mann 2010). As mentioned, neoliberalism emerged as a political-economic perspective during an era (1930s and 1940s) significantly different from the era in which it was first (supposedly) implemented (1970s and 1980s). This entailed a significant incompatibility between the underlying theoretical basis of neoliberal thought – even though it had evolved during that time – and the context in which neoliberalism became policy. This not only involved a shift from industrial to finance capital, as outlined above, but also a concomitant shift from income inflation to asset value inflation facilitated and ensured by the state (see above). Global financialisation, and not neoliberalism, also drove this wholesale political-economic restructuring across a range of different countries. It has meant, furthermore, that the political interests of different groups have changed as citizen-workers (or subject-workers) have been enrolled in the expansion of financial interests, creating an ‘asset-holding society’ according to Watson (2010). Consequently, global financialisation has extended the extent of political investment in the continuation of the state from financial elites to ‘ordinary’ people through new asset relationships. Neoliberalism, on
the other hand, contrasts with this state-sponsored (and anti-competitive) expansion of financial assets in a number of ways.

One major incompatibility is the theoretical focus of neoliberal thinkers on particular forms of inflation (i.e. income) and markets (i.e. goods and services), driven by the particular political-economic context in which they were working (e.g. early to mid twentieth century). This is important to consider because there are significant differences between economic systems in which product markets dominate and those, like now, dominated by asset markets, as Cooper (2008) points out. First, scarcity value is important in asset markets because it ensures growth in asset value, whereas in product markets in leads to a growth in supply and a consequent fall in prices. Second, the growth in asset values acts as a signal stimulating demand and further scarcity; it is the ‘rate of change’ of value, according to Cooper, that is important in asset markets. So the faster an asset increases in value the more demand will be stimulated, rather than a reduction in prices stimulating demand in product markets. Asset markets, unlike those for goods and services, therefore have a Ponzi-like structure as asset values are driven by (forever) increasing demand, whether this be for housing, stocks, bonds, gold, art etc., etc. This has been highlighted by the likes of Foster and Magdoff (2009), Harvey (2010) and Walks (2010). An asset-based economy becomes increasingly dependent upon self-reinforcing bubbles as inflation control has driven down wages and incomes, meaning that the only mechanism left to ensure the needed rising asset values is credit (Palma 2009), which pushes asset values even higher. Alan Walks (2010: 63) has specifically described this process as a form of ‘ponzi neoliberalism’ in which the:

“…credit bubble(s) merely gave the impression of a bigger pie, while issuing a pyramid of numerous overlapping claims to essentially the same pieces of a static or declining pie”.

However, the Ponzi-like structure has nothing to do with neoliberalism per se, and all to do with the characteristics of an asset-based economy. Asset bubbles, rising asset values etc. have actually been recast as beyond the control of the state, and particularly monetary policy. For example, the current Federal Reserve chairman Ben Bernanke, speaking in 2002, claimed that “monetary policy cannot be directed finely enough to guide asset prices without risking severe collateral damage to the economy” (quoted in Foster and Magdoff 2009: 119).

All of this radically changes the operation of markets, and has become increasingly important as a consequence of global financialisation as international capital mobility and investment eclipsed international trade in goods and services. For example, Turner (2009) illustrates that US corporations increased the proportion of their overseas profits – from numerous financial instruments – at the same time that financial profits increased as a proportion of domestic corporate profits; financialisation and overseas investments were thus intimately tied together. Overseas profits rose from 5.7% of domestic profits in the 1950s and 1960s to 45% in 2008 in a series of sharp expansions immediately before recessions; financial profits increased from 13% of domestic profits in the 1950s and 1960s to a high of 45% in 2001 (ibid.: 133-6). Greta Krippner (2005: 174-5) characterises such financialisation as the “provision (or transfer) of liquid capital in expectation of future interest, dividends, or capital gains”, which was extended on a global scale as multinational corporations

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20 Bernanke was then chairman of George W. Bush’s Council of Economic Advisors.
(not just US ones) sought ‘scarce’ (i.e. rising in value) assets around the world. This process of global financialisation led to a surge in the importance of interest – compared with dividends or capital gains – as a proportion of total portfolio income between 1950 to 2001, rising from around 20% of income to 70% in this period (ibid.). What this implies is that global financialisation is underpinned by the extension of financial capital as increasing debt fuelled rising asset values and more frequent asset bubbles, rather than as investment in productive assets. This is why the debt levels of the US financial sector have risen so fast over the last few decades, from 21% of GDP in 1980 to 116% in 2007 (Gowan 2009: 26). All this was especially evident during the decade that epitomises ‘neoliberalism’ – the 1980s – when financial sector debt almost doubled to 42% of US GDP; financial sector debt rose from around 10% of all US debt in 1975 to around 30% in 2005 (Foster and Magdoff 2009: 47-8).

The asset-based economy we are left with today is the second main incompatibility with neoliberalism. The neoliberal emphasis on the rationality and efficiency of markets, or the so-called ‘efficient market hypothesis’, assumes that assets values reflect an “accurate and justified” picture of the underlying economy (Roubini and Mihm 2010: 40). First, global financialisation and financial mechanisms like securitisation, which took off in the 1980s, has meant that there is no need for the credit-worthiness of a borrower to affect their ability to borrow because the risk they represent can be pooled (Sassen 2008). This disguises the risk of lending and facilitates the expansion of borrowing because debt no longer reflects the risk of lending. Second, in discussing the problems with this efficient market view, Roubini and Mihm (2010) draw on the work of Hyman Minsky to argue that financial markets are inherently unstable and therefore contradict ‘neoliberal’ ideas of rationality and efficiency. This instability results from the nature of asset values; these values are pyramidal in that they depend on ever rising demand. As a consequence they can start to crumble when money and credit runs out, leading to ruinous and escalating asset deflation unless the state (or central bank) steps in, which it must do if it does not want to see a wholesale collapse of the economy. What this implies is that there is no competition, either as we might commonly think it or as economists conceive of it (Foster et al. 2011), in an asset-based economy. This is because there is no competition over assets values, unlike over the prices of goods and services; that is, there is no way to compete to increase the value of your own asset and not that of a competitor holding the same asset (e.g. housing). Here the incompatibility with neoliberalism is most stark. There is no need for the state to ensure competitive market pressures because competition is no longer relevant, the reverse is actually true. Hence why the state engages in various strategies to prop up asset values (e.g. tax cuts – Shutt 2009), to guarantee the private sector, especially financial sector, against failure (Greider 1987), and to subsidise debt and leveraging by maintaining low interest rates (Sorge 2011). Thus neoliberal ideas are incompatible with global financialisation since neoliberalism is based on a regime of accumulation in which producers compete to sell goods and services.

The final incompatibility is between the growing instability in asset-based economies, and the popular expectation that government would intervene to manage any financial crisis. The reason for this was because global financialisation has led to the integration of more and more ‘ordinary’ people into asset-based markets that are dependent upon rising asset values, most obviously with housing. Although home ownership has been promoted in the US and UK for different political reasons by different political parties (Watson 2008; Roubini and Mihm 2010), it has had the same
effects; it has helped to extend the importance of asset value inflation to a majority of households (Pike and Pollard 2010). The emergence of the modern state, even the ‘national’ state, in early modern Europe and North America involved the enrolment of financial elites national bondholders dependent on the survival of the state for a return on their loans (Carruthers 1996; Ferguson 2002). The modern equivalent is the ordinary citizen who is dependent upon the continuation of the state for a return on their house purchases, mutual funds and pensions. The idea of an asset-holding society, posited by Watson (2010: 421), means that ordinary households benefit from the declining levels of regulatory oversight that has “ensure[d that the] general credit expansion facilitates inflationary pressures on asset prices”. Consequently, global financialisation has led to the integration of once ‘subordinate classes’ in the pursuit of asset inflation, which has lead to greater instability and more crises that necessitate, politically at least, the intervention of governments to stop wholesale destitution and loss of wealth; according to Panitch and Konings (2009) this has meant that government intervention has become even more necessary over time. However, unlike the ‘strong’ state envisaged by early neoliberals, this form of state intervention runs wholly counter to the idea of competition in free markets.

4.4 The Financialised Welfare State

Whilst the early neoliberal thinkers may have been rather sanguine about the welfare state – even suggesting the need for such a social safety net (Jackson 2010) – the subsequent growth of the welfare system in the Global North was probably far beyond any compromise they would be willing to make at the time. As already highlighted, public expenditure, particularly welfare spending, has had an upward trajectory since WW2, including during the ‘neoliberal’ era (Jackson 2009). The difference between the era when neoliberalism emerged as a distinct political-economic programme (e.g. 1930-40s) and now is pronounced when it comes to welfare spending. However, what is also distinct is the financialisation of welfare in response to retrenchment in certain areas of spending such as social and labour policies; instead of shifting to individual responsibility alone. As it has been transformed from a ‘safety net’ to a ‘trampoline in Julie MacLeavy’s (2010) words, or workfare state in other people’s (Peck 2010), there has been a significant re-alignment of spending towards pursuing what Matthew Watson (2010) calls ‘house price Keynessianism’. The creation of the ‘model welfare citizen’ is tied to global financialisation (see Finlayson 2009) and contrasts with neoliberalism as it still involves direct state stimulus of the economy through a number of different mechanisms (e.g. tax credits, mortgage interest credit, etc.). Consequently, the state has supported the expansion of financial assets through collective measures (not necessarily individual measures) so that they would be within the reach of the majority of households.

What is important to note first is that financial assets worldwide reached 350% of world GDP by 2006 (Palma 2009); this was even higher in some countries like the USA where it stood at 450% of GDP (Sassen 2008). As such, these financial assets are an integral part of every national economy; no country stands outside the process of global financialisation even if some are more embedded than others. Political-economic restructuring in countries like the USA and UK has involved a wholesale shift towards the importance of asset values, more than it has involved an expansion of trade or the expansion of production and services (as outlined above). This has meant that financial security for most individuals has shifted from their individual
employment and income, to their collective enrolment in collectivised financialisation. What I mean here is that as assets have become more important to more and more individuals, their value has become more reliant upon the continuing enrolment of ever more individuals in pursuing those same assets and thereby driving up asset values altogether (i.e. like a Ponzi scheme). Furthermore, as Saskia Sassen (2008) argues, financialisation entails innovation (e.g. securitisation), which actually reduces the relevance of an individual’s behaviour and character (e.g. credit-worthiness) to the value of the same assets. In this sense, financialisation has led to the collective growth of asset values. Hence there is nothing necessarily neoliberal about this financialisation of welfare through asset-based ownership. Rather, it has largely occurred as a consequence of the emergence and expansion of an unregulated international financial market that can not only innovate to reduce financial risk, but produce new financial collectivities as part of this innovation. At the same time, it has enabled more and more individuals to tap into this collectivised financial system through an expansion of credit and debt (Montgomerie 2006).

There is ample evidence of this growing collectivism of financial assets over time. One example is the rise of institutional investors, in the form of pension, insurance and mutual funds, over the last few decades. These institutional investors have become particular important bondholders; in the UK they held 29% gilts back in 1975, which reached 62% in 1999 (Ferguson 2002). They represent the collective financial investments of numerous individuals that have been pooled together, and, as a consequence of this collective pooling, they have become enormously powerful financial actors. As a consequence of this pooling, ‘ordinary’ individuals have assumed new roles in the economy. They are no longer just workers seeking to sell their labour for a wage; they are also investors and shareholders, although as part of a collective rather than as an individual. This changing role has led to a dual set of identities, relationships and linkages for individuals, which they need to negotiate across the international financial system (Pike and Pollard 2010). As a consequence of these changing roles, identities and so forth, it is not adequate to suggest that individuals have acquiesced to the financial, asset-driven bubble as Macartney (2011) implies. Instead, rather than being ‘exploited’, individuals are actively complicit in the extension of financialisation around the world, whether through house purchases, financial investments, savings, etc.

Obviously some people are more complicit than others, and some people have been conned into complicity (e.g. sub-prime borrowers) to their eventual detriment. What is evident, however, is that ‘house-price Keynesianism’, as theorised by Watson (2010: 415), has involved the creation of ‘investor subjects’ who have been encouraged to shift the moment of consumption “throughout [the] life cycle” by investing in housing. Up until the recent crisis, they were amply rewarded for their behaviour with rising house prices that averaged around 12% per year from 1997 to 2007 in the UK (ibid.: 418). This integration of ordinary individuals and households into the other side of the capitalist order (i.e. ownership) has been a significant driver of global financialisation. This integration of lower socio-economic classes into the capitalist order has been furthered through the expansion of credit and consumption that happened before the ‘rise of neoliberalism’ in the 1980s. For example, the expansion of credit is evident in the cheaper borrowing costs encouraged through New Deal programmes in the USA, which actually created tensions between banking regulations and the growing demands for credit, and resulted in financial institutions turning to the Euromarkets in the 1960s (Konings 2009).
In this sense, the emergence of a financialised welfare system, based on individual investment in personal assets, is dependent upon collective enrolment, expansion and securitisation of those assets. Without the expansion of assets values, which rise as a collective rather than in competition with one another (see above), there would be no way to expand the number of people who could buy into global financialisation. As Panitch and Konings (2009) explain, in the USA housing demand led to an expansion in new properties and rising house prices; this created new mortgages and debt, which could be securitised and thereby transformed into liquid capital for reinvestment elsewhere (and the process to start again). However, the process depended upon rising asset values and low interest rates to enable the financing of rising payment burdens. The financial crisis revealed the underlying problems with this system as individuals began defaulting, banks were unable to value their securitised assets, and governments had to step in to stop outright collapse of the financial system. The shadow banking sector – e.g. hedge funds, SIVs, CDOs, CDSs, etc. – that made all this possible is nothing like the free market model (backed by a strong state) peddled by neoliberal thinkers. As Gowan (2009) argues, private financial firms effectively set their own leverage levels, whilst (private sector) ratings agencies stamped the financial instruments created by these financial firms with gold-plated ratings.

5. Conclusion

The starting point for this paper has been the very simple question, have we ever been neoliberal? I wanted to ask this question because of the continuing ambiguity with the concept of neoliberalism that has, to my mind at least, only been put into relief by the recent and ongoing financial crisis. Rather than represent the culmination of neoliberal political-economic restructuring or project, it is my contention here that the financial crisis can be used to demonstrate that we have never been neoliberal, in the sense proposed by neoliberal thinkers themselves. This is important because the crisis could actually lead to the emergence and embedding of neoliberalism as next political-economic regime. We have to therefore consider whether we have missed the simply missed the wood for the trees in our critical scholarship. It is now incumbent on critical scholars to engage with neoliberalism afresh and, more importantly, to engage with financialisation as a process that may lead to a turn towards neoliberalism.

What I have hopefully outlined in the above paper is that neoliberalism cannot be characterised as one thing or another; it is an evolving set of ideas, theories, values, morals and so on, each of which may mean something different to different people at different times. The key underlying basis would seem to be the prominence of private property, competitive markets, and the individual as the foundation for social and economic life (Henry 2010). What this basis rests on is more than a negative campaign against central planning or Keynesianism. They also require that neoliberal thinkers started out with a ‘positive’ agenda in which the state played a crucial role buttressing the competitive market, supporting property rights and encouraging individualistic behaviours and morals (see Amable 2011). However, this has come up

21 The US government has long encouraged debt financing and hence the expansion of debt as interest payments in the USA have been tax deductible since the early twentieth century (Gordon 1998; Shutt 2009). It is therefore hardly surprising that interest has become the main source of financial income, ahead of dividend payments and capital gains (Krippner 2005).
against the process of financialisation that expanded globally from the late 1950s onwards.

Global financialisation, as I have characterised it, has involved the organisation and disorganisation of the global economy as a consequence of emerging, state-less international financial markets (e.g. Euromarkets). As a result, the policy instrument underlying inflation control in the 1970s and 1980s was not monetarism (i.e. a particular neoliberal idea), but rather the expansion of the national public debt. This contrasts sharply with neoliberalism, as does the role of the state in facilitating and insuring asset bubbles in the financial sector, housing sector or elsewhere. What we are left with nowadays is an asset-based economy in which stagnating wages are shored up with the accumulation of ever larger levels of personal and corporate debt. All of which has led to financial crisis as we experience it.

With this analysis of the crisis is meant to illustrate is that neoliberalism actually comes up against financialisation, they are incompatible. The international financial market that emerged in the 1950s is beyond the control of the state, meaning that the state cannot play a ‘strong’ role as envisaged in neoliberalism; it must, in fact, seek new mechanisms of monetary and fiscal control, such as expanding the national public debt to control inflation. There is also a theoretical-empirical dissonance between neoliberal thinking and the evolution of the world economy as we have moved towards asset-based economies in which efficient markets are increasingly rare (Roubini and Mihm 2010). Finally, we are witness to the expansion of collective, yet financialised, forms of welfare where the individual is obscured by financial innovations such as securitisation. All in all, it is pertinent to raise the question I ask, and pertinent to answer that maybe, yes, we have never been neoliberal.

6. References


