



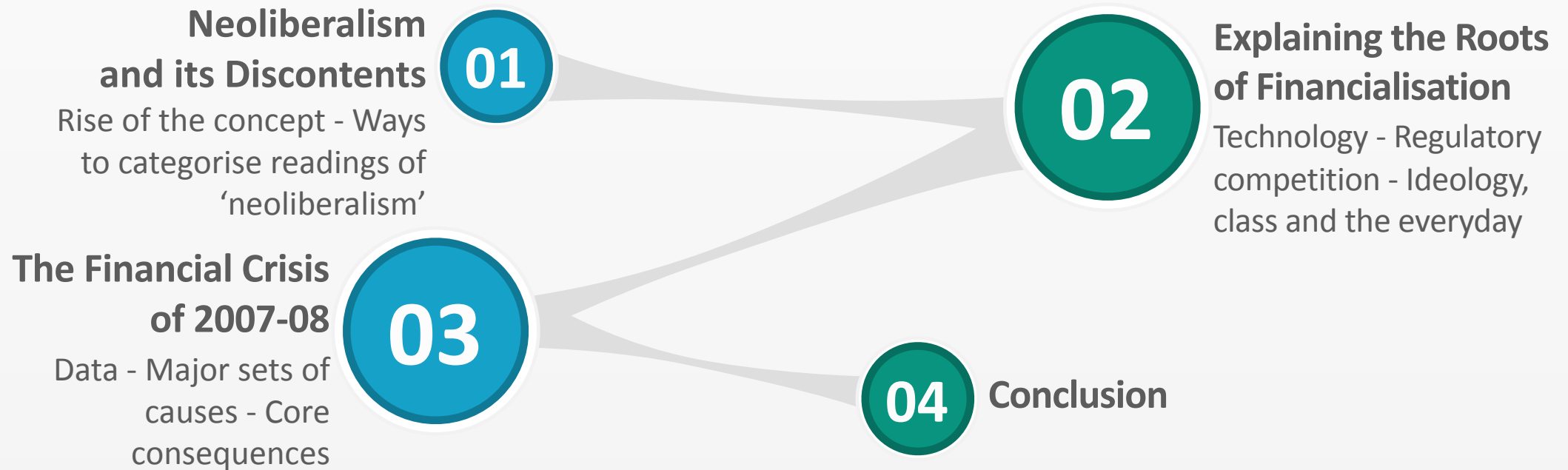
IIPPE TRAINING WORKSHOP 2016

1. Introducing Neoliberalism

Dr Matthew Eagleton-Pierce
SOAS University of London
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Lecture Map

IIPPE TRAINING WORKSHOP 2016 INTRODUCING NEOLIBERALISM



1. Neoliberalism and its Discontents



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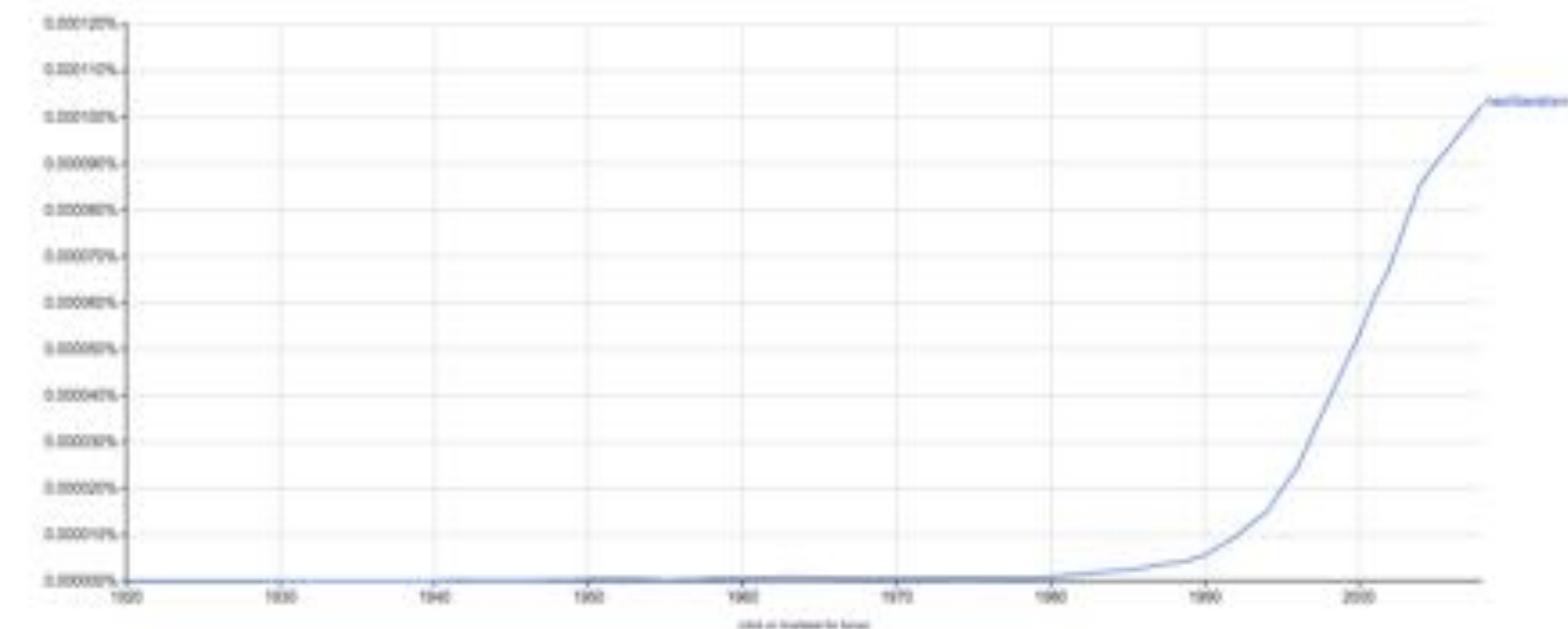
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neoliberalism

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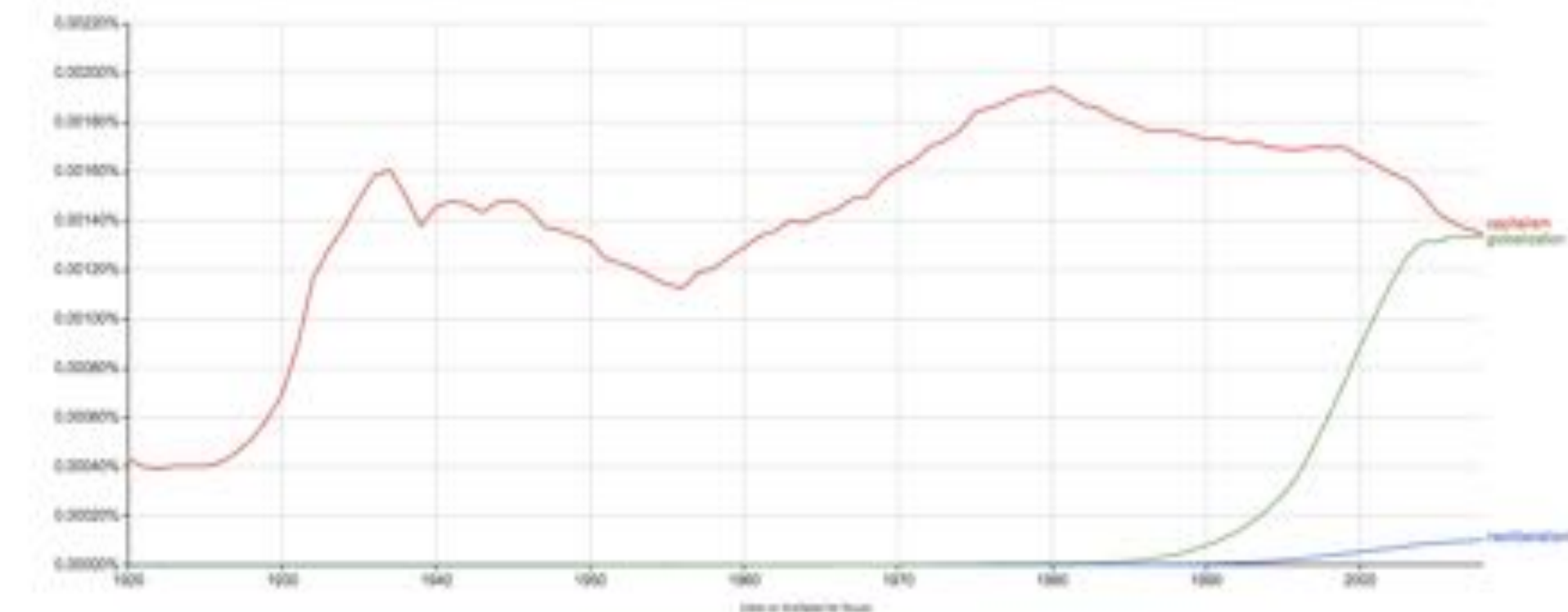
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1800-1999	1999-2008	2008	2008	2007-2008	neoliberalism	English
1800-1900	1900-1999	1999-2008	1900-1999	2000-2008	capitalism	English
1800-1900	1900-1999	2008	2008	2007-2008	globalization	English

Rise of 'neoliberalism'

- ❑ Since 1990s, 'political neoliberalism' appears as term of scholarly critique and on the 'the political left' (Latin America particular roots).
- ❑ Conflated with 'globalisation', 'capitalism', 'free markets' or defined as latest age of each. A object of distaste to mobilise critical opposition.
- ❑ Meaning quickly became stretched; a 'plastic, porous and promiscuous' (Peck, 2010) notion.
- ❑ But few self-named 'neoliberals'.

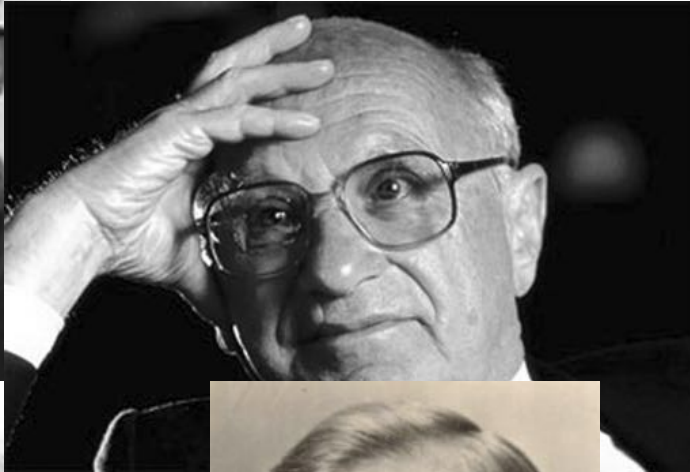




“And then we told them wealth
would ‘trickle down.’”

N1: as a history of ideas

- ❑ From 1930s to 1960s: term was used in a positive sense by group of intellectuals (Hayek, Mises, Röpke, Friedman).
- ❑ Drew inspiration from C19 Victorian liberalism but also wanted to adapt and spread a new agenda for the C20.
- ❑ 'Collectivist threats' - state socialism, Nazism, and corporate monopolies - threatened fabric of liberal capitalism.
- ❑ Idealised the 'free individual' through enterprise, but recognised a role for the state in rule of law and policing. Not opposed to planning *tout court*, but overly strict blueprints criticised.



N2: as a system of enhanced capitalist power from the 1980s-

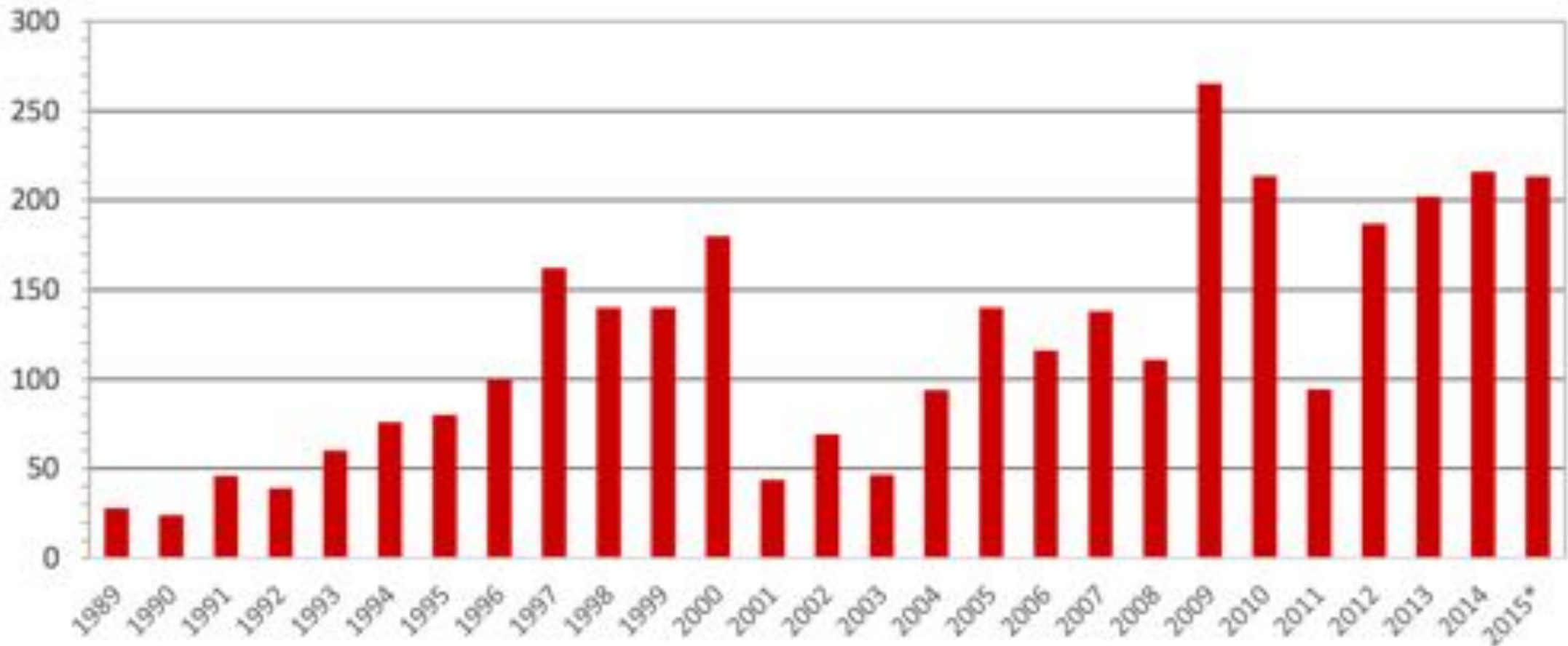
- ✓ **The spread of the market model across territories and spaces**
Directed by govs (US, UK, before wider adoption, such as via IOs) which promoted commodification (trade liberalisation, privatisation, stabilisation of inflation). Corporations privileged (esp. finance).
- ✓ **Reconfiguration of the state as 'entrepreneurial' actor**
State is claimed to be 'overstretched'; need to partner with business, attention to 'customers', and potential to make money.
- ✓ **Aspiration for fiscal discipline, particularly in welfare**
Desire to cut and delimit the postwar 'social state' model, to push citizens towards market-based provisions and adjust expectations on state-society relations.



Three decades of rising corporate profits



Worldwide revenue for privatisations, 1989-2015 (\$USbn)



Global stock of financial assets (\$US trillion)



1 Based on a sample of 183 countries.

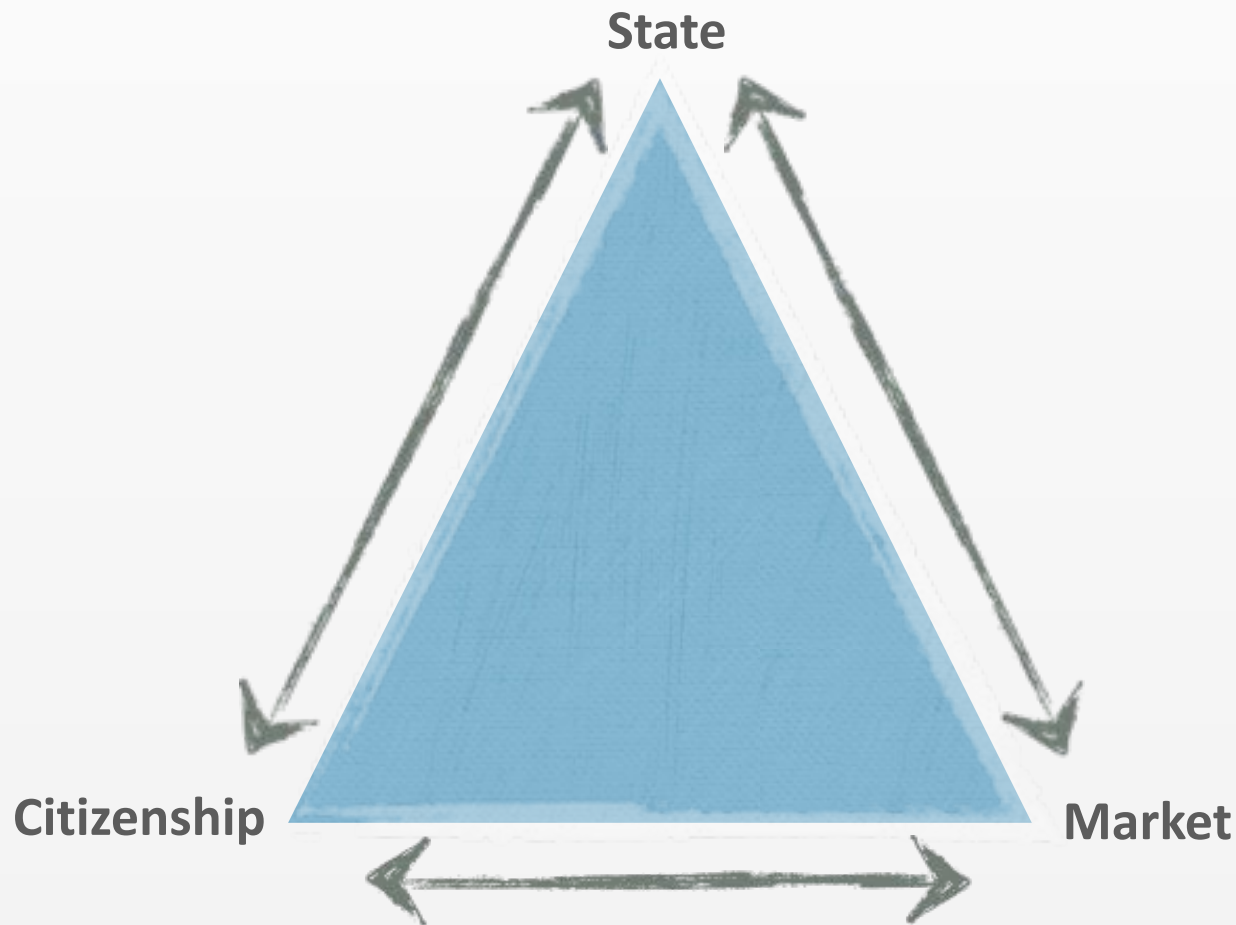
SOURCE: McKinsey Global Institute Financial Assets Database; McKinsey Global Institute analysis

N3: as everyday conduct

- ❑ 'Messy' view of neoliberalism: not an coherent ideology or policy package, but something more pervasive that, virus-like, infiltrates social and human bodies.
- ❑ Inspired by Foucault, also some feminists writers.
- ❑ Conceptualisation of neoliberalism as shaping the self-identity and behaviour of populations and people, but often more diffusely and less consciously.
- ❑ Example: cultivating a *competitive spirit* to become a 'good entrepreneur'/'good worker'/'good consumer'



Wacquant's reading on the neoliberal period



- ❑ Neoliberalism is 'an articulation of state, market and citizenship that harnesses the first to impose the stamp of the second onto the third'.
- ❑ Need to find a space between the Marxist-inspired vision of 'market rule' and the Foucauldian messy vision of 'governmentality'.
- ❑ Neoliberalism is a thoroughly political project which has tended to enhance the life chances to existing holders of economic and cultural capital.

Benefits and drawbacks of neoliberalism as a term

<i>Benefits</i>	<i>Drawbacks</i>
Due to history of use on political and academic left (since 1980s), mobilises groups and sharpens the senses that a critical debate on capitalism may arise.	Has become attached to so many objects and processes that has increasingly lost significant analytical meaning. Neoliberal North Korea anyone?
Better than 'globalisation', 'the markets', or 'the economy'. In some instances, enables people to speak about capitalism without the Marxist baggage.	In some contexts, has invited people to debate capitalism, yet without adequate understanding of capitalist processes can leave discussion empty.
Depending upon the debate, may keep attention on how the history of the Western liberal tradition is part of modern political economy.	In other cases, remains unclear what precisely is new in neoliberalism. Poor specification of historical context and over selling of 'the new' is common.



2. Explaining the Roots of Financialisation



The Politics of Finance

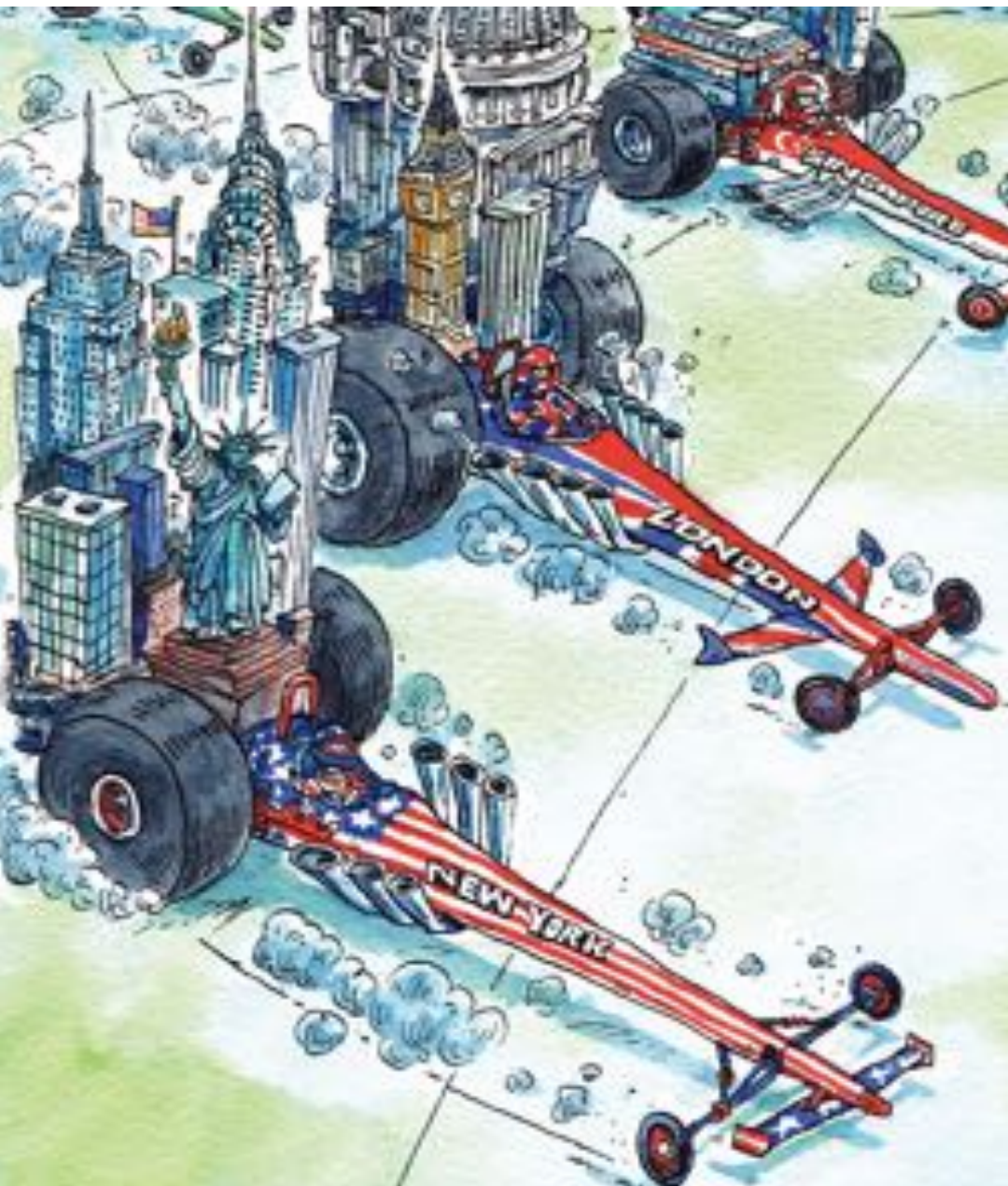
- Financial sector rose in power from 1980s. Governments (US/UK) laid the legal rules to encourage expansion.
- Personal ties between elite policymakers and financiers or 'revolving doors' between jobs.
- Institutional dependence between political parties and financiers to support funding, lobbying.
- Structural power of financial markets over government choices.



Technology

- ❑ According to some globalisation theorists and advocates of private finance, communication and information technologies are claimed to 'sweep away' institutional and national barriers. A sense of 'inevitability'.
- ❑ Innovations often do lower financial transaction costs, making it harder for governments to make restrictions effective. Finance sector often at the vanguard of testing technologies.
- ❑ But technology always carries a politics and contains political decisions.





Regulatory competition

- ❑ 'Competitive deregulation' to attract the business of mobile financial investors in London and New York (Helleiner). Beneficial for some developing economies in terms of lowered borrowing costs, but still big risks.
- ❑ Late-1950s-: US and UK strong interest in promoting finance (Eurodollar market).
- ❑ Into the 1980s: trend of neoliberalisation:
 - (1) US presses foreign states to relax controls (Japan);
 - (2) UK 'big bang' reforms open LSE to foreign institutions;
 - (3) EU project (France leads);
 - (4) World Bank, IMF, OECD normalise push.

Ideology, class and everyday

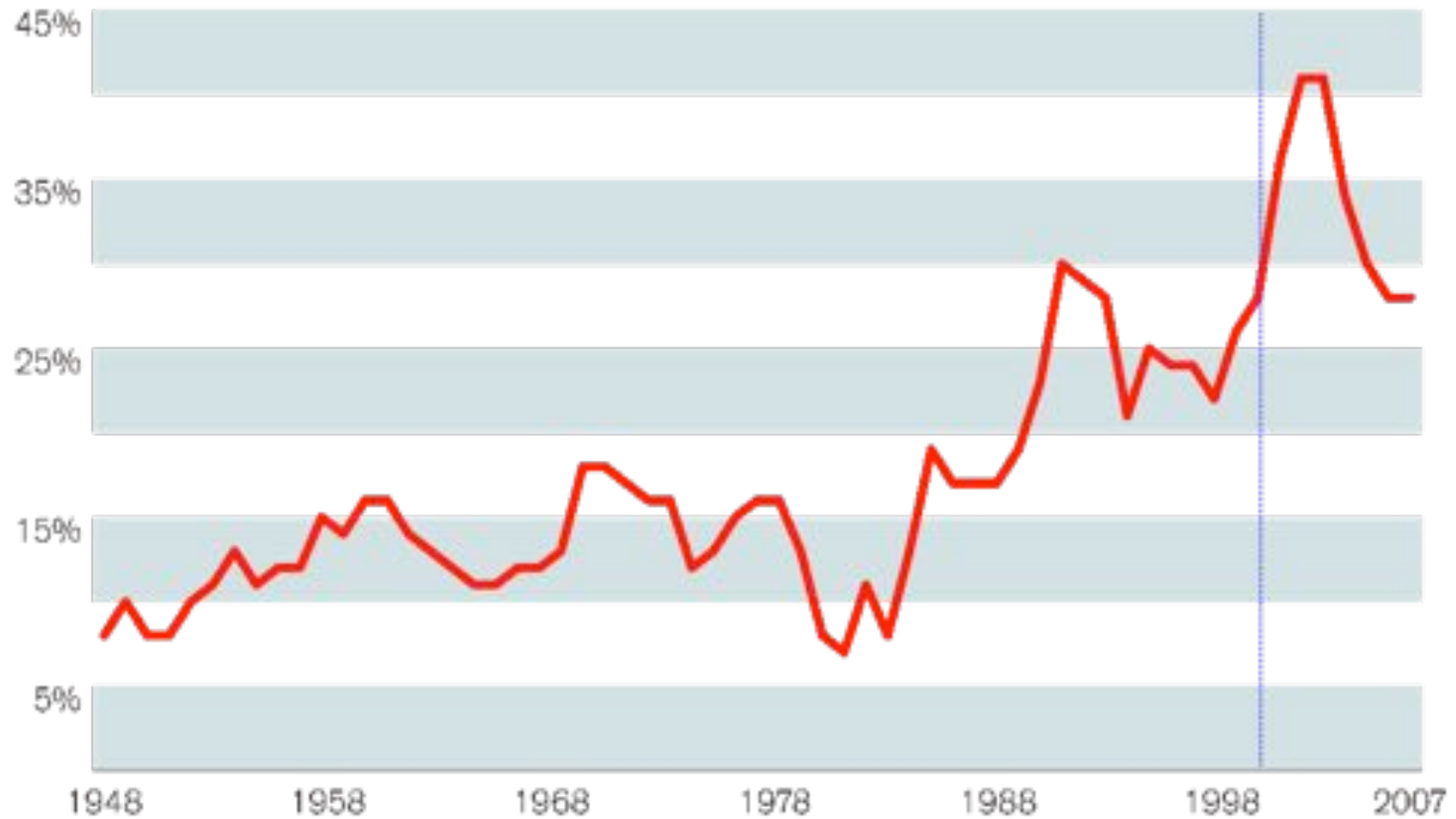
- ❑ Belief systems as catalysts and legitimating forces for policy change.
- ❑ Loss of faith in efficacy of capital controls and Keynesian activism. Emergence of neoliberal ideology, defended by key institutions like IMF.
- ❑ Financialisation works to redefine meaning of 'class': (1) entrepreneurs and the *nouveau riche* privileged; (2) subordinate classes integrated into webs of relations (private pensions, credit, mortgages); (3) links to consumerism blunt wider criticism of capitalism.



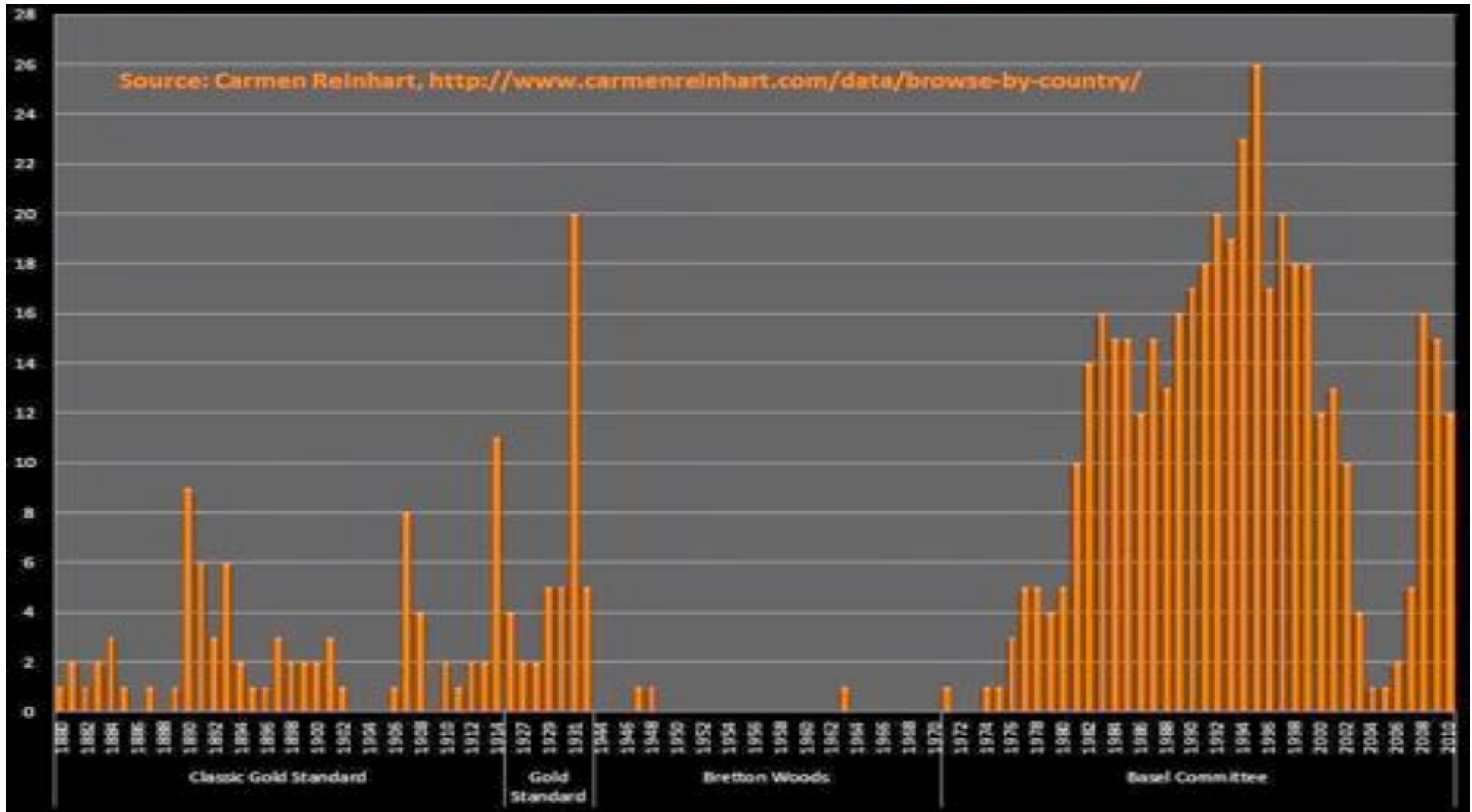
3. The Financial Crisis of 2007-08



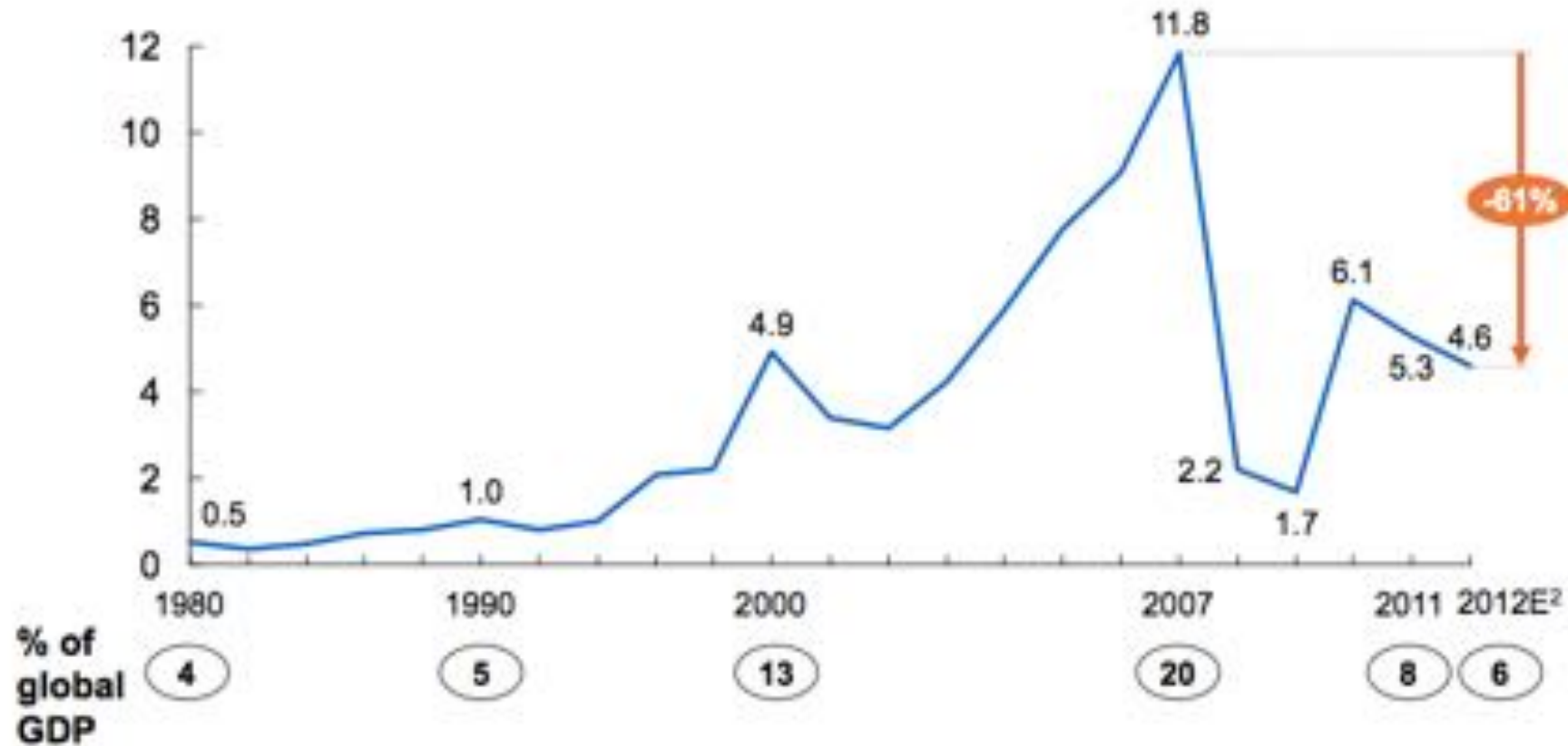
US financial industry profits as a share of total US business profits, 1948-2007



Share of countries with banking crises, 1800-2007



Global cross-border capital flows (US\$ trill), 1980-2012



1 Includes foreign direct investment, purchases of foreign bonds and equities, and cross-border loans and deposits.

2 Estimated based on data through the latest available quarter (Q3 for major developed economies, Q2 for other advanced and emerging economies). For countries without quarterly data, we use trends from the Institute of International Finance.

SOURCE: International Monetary Fund (IMF) Balance of Payments; Institute of International Finance (IIF); McKinsey Global Institute analysis





Risky lending practices

- ❑ All major banks took on dangerous levels of debt in an effort to become even bigger (30 to 1, even up to 50 to 1).
- ❑ US housing market a 'wild west' environment: predatory lenders who required little or no evidence of borrower income, zero down payments.
- ❑ Higher risk loans required borrowers to pay higher fees and, thus, generated larger profits for the lenders.
- ❑ Wider culture of mis-selling was seemingly intrinsic to other markets, including insurance and credit cards.





Securitisation

- ❑ A form of financial engineering whereby credit-risky assets are packaged with higher quality assets to enable the sale of the former to a wider market.
- ❑ Example: take a bad debt (mortgage) and sandwich it with good debt (government bonds) to make a new product.
- ❑ Not necessarily a 'bad thing' in principle, but dangerous when it becomes overly complex and cloudy ('moral hazard') on where responsibility lies for the debt.
- ❑ Main lesson: You as an individual can diversify your risk. The system as a whole, though, cannot reduce the risk.

Credit rating agencies

- ❑ Ratings were claimed to represent an independent and accurate judgment on the risks of different assets. Ratings made on financial health of many things: products, banks, governments.
- ❑ However, many conflicts of interest have surfaced between CRAs and their clients: softened rating criteria, even revealing models for payment.
- ❑ Crisis showed many ratings as worthless guides. For instance, for Lehman Brothers, on morning of its collapse, the CRAs still had investment grade ratings.



**STANDARD
& POOR'S**

FitchRatings
KNOW YOUR RISK



Government actors

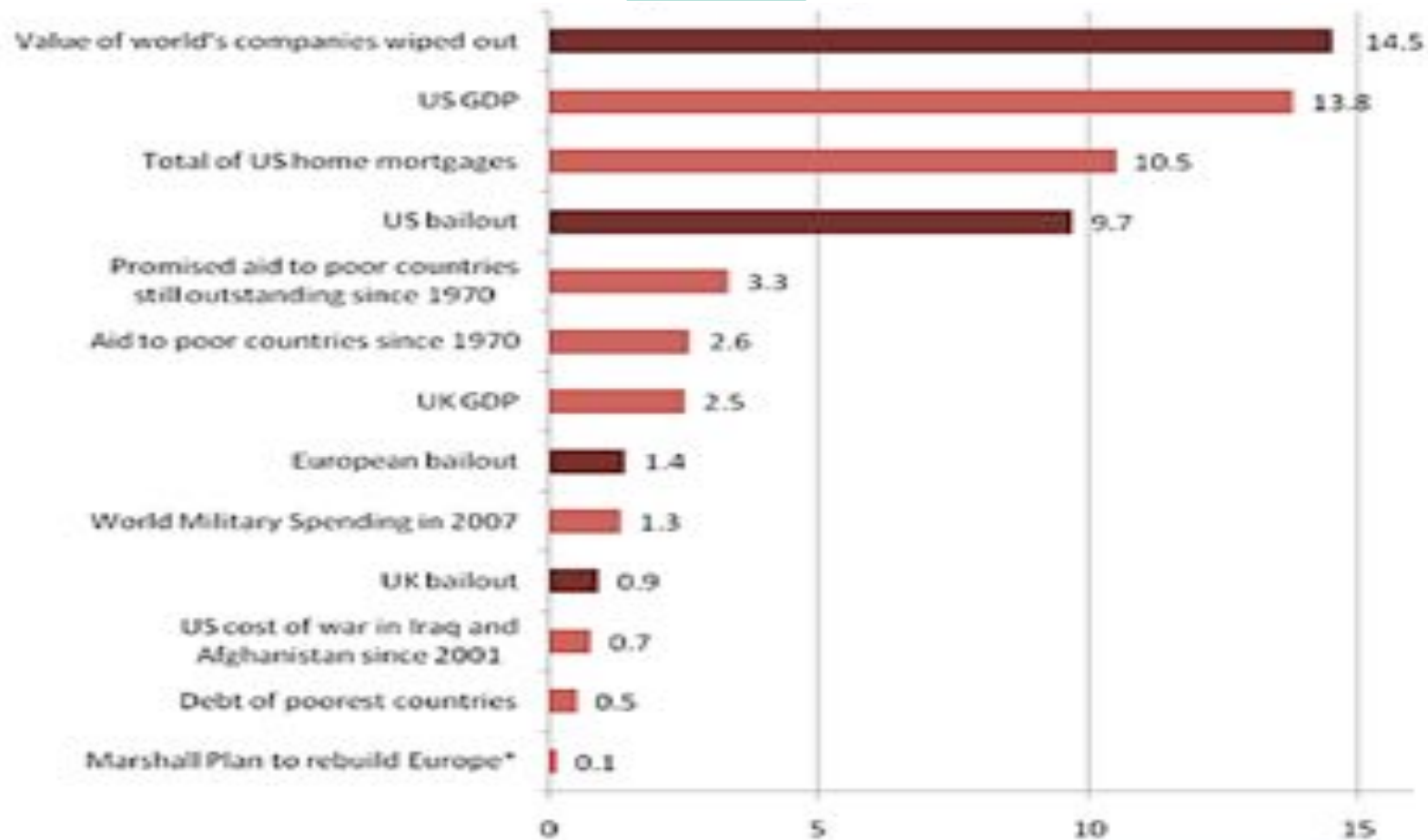
- ❑ Weren't governments keeping an eye?
- ❑ Governments (including central banks) wanted cheap money to keep up growth and thus maintained extremely low interest rates (less than 1 per cent).
- ❑ But these low rates also tempted large financial institutions to get greedy again.
- ❑ Rise of China purchasing power generated massive inflows of money into US government debt, further fuelling the supply of cheaper credit.
- ❑ 'Light touch regulation' ruled: finance obtained tax breaks, easy rules, and broader political sympathy.

The consequences

- ❑ The crisis produced devastating impacts: the biggest depression since the 1930s; 30 million people lost their job; harder impact on young people (aged 15-24).
- ❑ US: lost income maybe US\$30 trillion.
- ❑ Governments saved the banks (average 20-30% of GDP; UK was 60% of GDP), along with many measures.
- ❑ Yet financial sector remains as large, complex and almost as powerful today.
- ❑ Debt largely shifted to public sector, sparking popular resistance and anger at perceived societal injustices.



Losses and bailouts for US and European countries in context (US\$ trill)



* Adjusted for inflation

Sources: BBC, Bloomberg, UPI, globalissues.org, Feb 2009



4. Conclusion



Conclusion

- ✓ **Modern neoliberalism**
Calls attention to transnational remaking of the *nexus between the state, market, and citizenship* in the current period of capitalism. In practical terms, does not reject the state, but seeks to re-engineer it for 'competitiveness' ('global', national, city, individual).
- ✓ **Rise of modern financialisation**
Combination of explanations needed: regulatory competition in response to domestic problems, ideology, class, and technology. Financialisation can be viewed as both an elite-led project and a web of everyday relations of credit.
- ✓ **Global financial crisis had many causes**
Still unpacking the factors, but risky lending behaviour by banks and other institutions is probably the most important.



THANKS FOR LISTENING

Dr Matthew Eagleton-Pierce

Lecturer in International Political Economy, SOAS University of London

Email: m.eagleton-pierce@soas.ac.uk

