The Arc of Neoliberalism

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For over three decades, neoliberalism reshaped the global political economy. Broadly, neoliberalism stresses the necessity and desirability of transferring economic power and control from governments to private markets. Beginning in the 1970s, this perspective dominated policy-making in the West, and spread globally after the Cold War. Many analysts credited neoliberalism with the affluence and strength of the global economy during the 1990s and 2000s. The Global Financial Crisis of 2008 has shaken neoliberalism's hold on policy, with many suggesting that its policies were responsible for the collapse (Cohan 2009, Johnson & Kwak 2011, Lewis 2010, Lowenstein 2010, Morgenson & Rosner 2011, O'Toole 2009, Reinhardt & Rogoff 2009, Sorkin 2009, Stiglitz 2010). The crisis and ensuing Great Recession may have shaken neoliberalism's supremacy, but it remains unchalleneged by serious alternatives and continues to shape post-2008 policy.

In this review, we analyze the rise and stumble (but not fall) of neoliberalism, with an eye on how its life cycle informspost-2008 economic policy debates. The historical arc of neoliberalism - its birth in the midst of chronic global economic crisis, its massive diffusion after the Soviet Union's collapse, its entrenchment as a cornerstone of economic policy near the turn of the millennium, and the crisis that has threatened to undo it – tell us a great deal about the merits and failures of this specific paradigm and about the potential lifecycle of political-economic dogmas in general. Our narrative provides some clues about how the post-2008 economic drama

might be resolved, which parts of the neoliberal project might fruitfully be carried forward or challenged, and why alternatives have been slow to develop.

What is Neoliberalism?

Neoliberalism sought to dismantle or suppress extra-market forms of economic coordination (Amable 2011). Concretely, its policies involved the elimination of institutionalized post-Depression and post-WWII policy conventions, like redistributive taxation and deficit spending, controls on international exchange, economic regulation, public goods and service provision, and active fiscal and monetary policies (Centeno & Cohen 2010, Gwartney et al. 2010, Miller & Holmes 2011). It opposed such policies because they infused "non-economic" or "political" considerations into economic activity, while the rule of markets was viewed as conforming to essentialist and universal principles.

These policies were not a product of natural law, economic evolution or some other inescapable historical mechanism. Understanding neoliberalism's history and practical dilemmas involves paying attention to the underlying structural economic developments, the (re)distribution of political power, the ideational and discursive shifts that framed how these changing conditions were perceived and acted upon, and the balance between coercion, exchange, and conversion in explaining its global diffusion (Henisz et al. 2005)

Building on previous work (Larner 2009, Mudge 2008), we outline three substantively different vantage points from which to understand neoliberalism's arc: *(1) a technical policy debate regarding the best mode of operating an economy; (2) an institutionalized crisis containment strategy involving political choices and power;* and *3) the rise of a hegemonic ideology or system of thought.* Each view has its own merits and requires its own narrative or analytical arc and none

represents an exclusive causal chain. Each perspective frames neoliberalism's origins, workings and consequences somewhat differently, providing a distinct vantage point on a complicated, but profoundly important, political-economic development of the post-Cold War era.

The Economics of Neoliberalism

After the Great Depression and World War II, states faced great pressures to control capitalism's excesses and establish basic welfare guarantees for their populations. Governments grew to be substantially larger and more economically influential, as states increased social spending, public investment and enterprise ownership, and market regulation, while maintaining large peacetime militaries (Bruton 1998, Cameron 1978, Tanzi & Schuknecht 2000). These changes were made possible by governments' coordinated control of international trade and capital flows under the Bretton Woods Accord, which helped keep international economic forces from subverting public sector growth (Ruggie 1982). In developing countries, open markets were widely seen as suppressing development, and states were seen as a counterbalance or cure to this suppression (Bruton 1998). During the mid-20th century, virtually all of the world's countries embraced "interventionist" or "state-managed" capitalist regimes, and enjoyed fast growth, stable prices and rising equality (Berman 1998, Bordo 1993, Fischer et al 2002, Piketty & Saez 2003, Rodrik 2004).

State-managed capitalism system began to face strains by the late-1960s. Developing countries' capital investment projects and central planning efforts often failed to create internationally-competitive businesses (Bruton 1998). In the US, worker productivity was declining (Gilpin 2001), and US trade deficits were growing (Block 1977). An international glut of US dollars materialized, creating speculative financial pressures that frayed Euro-American relations and ultimately led to the collapse of the Bretton Woods Accord (Block 1977, Helleiner 1994).

With Bretton Woods' collapse, the mid-century capitalist system lost an institutionalized mechanism by which governments coordinated their joint control over international capital markets during the 1950s and 1960s. Afterwards, governments' coordinated responses to international financial forces would generally be ad hoc, and states' ability to make policies with insulation for market pressures would be frayed (Andrews 1994, Webb 1991).

In 1973, the OPEC oil embargo sparked a sustained economic crisis across the Western world. It created a price shock that, for the first time since WWII, generated persistent inflation in developed economies. In subsequent years, the world's dominant currencies lost half of their value while those of developing countries often became worthless. What was unique about this crisis was that prices rose in tandem with an economic slowdown and a rise in unemployment. Over the 1970s, the major Western economies saw growth rates roughly halve, and unemployment rates rise by 40% to 500%, (Helliwell 1988:2). Such a coincidence ran contrary to then-dominant Keynesian beliefs that inflation was produced by an over-heated economy, providing a major coup for those who subscribed to anti-state policy views (Smith 1982).

Scholars still disagree about the crisis' ultimate causes; explanations often involve some mixture of commodity prices, monetary expansion, declining returns on investment, and labor conflict (e.g., Barsky & Kilian 2001, Olson 1982, Smith 1992). At the time, however, policy-makers increasingly adopted the view that government interference was the main culprit, and that the solution involved reforming the economy in ways that privileged markets' economic influence over that of the state. Their various views were ultimately crystallized as a set of liberalization policies called the "Washington Consensus": fiscal austerity, market-determined interest and exchange rates, free trade, inward investment deregulation, privatization, market deregulation, and a commitment to protecting private property (Williamson 1990). While no country perfectly

adhered to this policy paradigm and practice was often mixed, it still served to define the general direction and intention of neoliberal reforms.

The first challenge for neoliberalism was inflation. New monetary policies succeeded in starving inflation out of the system and by the mid-1990s, and price stability had been almost universally achieved (but paid for with significant economic downturns and increasing inequality). But neoliberalism was not just about financial stability. By the late-1970s, there was already quiet and modest moves towards market liberalization, which accelerated quickly during the 1980s (Albo 2002,Blanchard et al. 1987, Bray & Walsh 1998, Harvey 2005, Healey 1992). Deregulation, particularly in the financial sector, represented an even earlier area of major reform. The combination of inflation and deregulation helped nurture the growth of "financial innovations" like commercial paper or money market funds (Krippner 2011, Silber 1983), two early booms in institutional investment.

Over the 1980s through 2000s, the financial sector operated within a progressively deregulated environment, and grew markedly larger, more complex, more economically and politically powerful, and an increasing source of instability (Carruthers 2011, Davis 2009, Epstein 2005, Foster 2007, Krippner 2005; 2011). In the US, politicians discovered that they could cut taxes without serious offsetting spending reductions, and that the long-term consequences of deficit spending could be delayed or erased by attracting private credit and inward international investment (Krippner 2011). The US and Britain, and ultimately many other countries, would run persistent fiscal and trade deficits whose effects would be offset by stimulating private and attracting international investment.

During the 1980s, neoliberalism's free-wheeling international financial markets gave some indication that they could be economically destabilizing. Many developing countries weathered the difficulties of stagflation due to a massive sovereign lending bubble by Western banks (Sachs 1989). Cheap loans allowed developing countries to absorb the international oil price shocks, while continuing to finance public investment and deficit spending. Financial institutions lent freely, and one credit market – sovereign debt – gobbled up loans voraciously. Western banks had become deeply involved in these loans, with US banks owning over three times their capital in developing country bonds (UK had 125% and Germany had 50%) (Eichengreen 2004). However, rising US interest rates caused capital to flee to America, raising the costs of servicing the developing world's growing debt. In 1982, Mexico's threatened default created a panic on international credit markets. The system ultimately created a debt crisis akin to 2008, and the survival of the global financial system appeared at risk.

Much as would happen two decades later, OECD governments ultimately saved financial institutions in the late-1980s with bailouts made conditional on reforms that shifted the adjustment costs of the crisis to the borrowers. In the case of developing countries, the price of being bailed out involved politically and economically-difficult reforms, but no serious containment on Western lending or leverage. The pattern was set for the years to come: deregulation would lead to crisis, public authority and money would be used to resolve it, and austerity was demanded as a way to pay for the mistakes. Although the stagflation and developing world debt crises followed several forms of international financial liberalization, and the latter clearly involved irresponsible private lending, these predicaments were generally attributed to the backwardness of state-managed economic policies writ large, and not to neoliberalism or financialization per se.

Any concerns about the negative side of neoliberal reforms were soon erased with the emergence of the information technology and international investment booms that started in the early 1990s. Foreign direct investment into developing and ex-socialist countries began to accelerate (Cohen & Centeno 2006), with Western businesses anxious to gain footholds in these new economic frontiers. Trade was liberalized substantially (Chorev 2007), and businesses aggressively sought to internationalize their operations. US (and ultimately many Western) companies sought to offshore (via direct investment or outsourcing) the production of tangible goods, assuming a role in the international division of labor that concentrated on product design, market, consulting and intellectual property, while physical production moved to low-wage developing countries (Centeno & Cohen 2010). The Western economies ceded dominance in resource extraction and low-technology production, and increasingly profited from trade and finance. Eastern Europe and Asia experienced a roaring prosperity as they became major international manufacturing outposts, and soon aspired to join the "developed" club.

Despite the boom, some observers questioned the centrality of liberal markets to the Asian "miracles" that originally justified reforms, while noting that Latin America – the world's most fervent adopter of neoliberalism – was doing poorly economically (Gore 2000, Rodrik 1996). Others began to argue that market liberalization was not a complete solution in and of itself, and calls to focus on the importance of *how* states govern markets grew louder (Burki & Perry 1998, Evans 1995, Evans & Rauch 1999). There were several clear indications that these policies promoted inequality and hurt the poor, and that these problems hindered the larger development process (Williamson 2003). Inequality became worse in the US (Piketty & Saez 2003) and elsewhere, although the rapid development of China and India made the world economy more equal on a population-weighted basis (Firebaugh 1999).

These qualms seemed academic before a clear and a serious systemic crisis presented itself to the world's countries. Preoccupation over financial risk intensified quickly in a spate of currency collapses in large, "economically sophisticated" developing countries. The massive capital inflows that helped ease the strains of public debt and reignited economic investment could reverse quickly, with devastating consequences. Moreover, there were indications that the financial panics could be created by financiers themselves acting on herd behavior and self-fulfilling prophesies or falling into indiscriminate fears (Flood & Marion 1998). In 1997, an East Asian banking emergency created a global panic, causing crises across the developing world and ultimately prompting Russia's default (Halliday & Carruthers 2009). Soon, economists began to question openly the net benefit of free capital flows (e.g., Feldstein 1999).

Although financial crises remained a persistent problem for the developing world, there was a sense that the world's richest countries' financial market development had made them invulnerable to systemic threats, despite past crises [e.g., the 1982 debt crisis, the late 1980s "savings and loan crisis" (Calavita et al. 1997)]. Yet, potential problems with these mature markets were once again apparent by the end of the 1990s. Supposedly "innovative" financial firms proved to be as big a threat as a cure to systemic instability. The failure of Long-Term Capital Management's quantitatively sophisticated and highly successful automatic trading schemes, for example, ultimately produced massive losses that threatened systemic financial stability and a government-engineered bailout (Lowenstein 2000).

In 2000, the West's technology market bubble burst. This downturn revealed serious manipulations of financial reporting - most notably with cases like Enron, Worldcom, Adelphi and Tyco - where auditors were complicit in the theft of billions of dollars. The response to this malfeasance was the Sarbanes-Oxley Act, which quickly became the target of critics who

characterized the regulations as burdensome and a potential cause of America's declining competitively in financial markets (Coates 2007, Soederberg 2008).

The US began an odd and short-lived recovery around 2003. Growth was slow and median wages barely moved, while the financial sector enjoyed large profits. Sarbanes-Oxley – or anything that emerged after these aforementioned financial crises – did little to stem the tide of "financial innovations" that ultimately helped fuel the boom and eventual financial market collapse in 2008. The innovations most directly responsible for the resulting crisis involved banks' practice of bundling mortgages (and many other kinds of contracts) into securities to be sold on lightly-regulated secondary security markets. Theoretically, investment banks only packaged and re-sold these securities, but other parts of these diversified institutions would hold them in hopes of enjoying the high rates of return that they had enjoyed.

As with most bubbles, prevailing theory, market perception and bond rating agencies assumed that these kinds of securities offered low risk, while the presumably "well-informed" market determined that they merited solid returns. The rush to buy these types of assets made huge amounts of capital available for home buyers, while exposing financial institutions to imperceptible, and very large, risks. Furthermore, the Federal Reserve became complicit in this bubble by pursuing a monetary policy that stimulated financial markets when downturns threatened. This "Greenspan put" (Goodhart 2008) was taken as an implicit guarantee that governments would not let financial markets deflate.

Systemic risk concerns materialized over 2007 and 2008, when home prices began to decline, and financial institutions' derivative exposures became more pressing (reviewed in Brunnermeier 2009). Private institutions had built a web of derivatives – contracts of contracts –

including the notorious collateralized debt obligations and credit default swaps. By 2007, after years of double-digit growth, these derivatives markets collectively grew to a value of $11 trillion, covering an estimated notional value $516 trillion in assets.

By late 2008, panic over the solvency of financial institutions emerged, leading to a string of defaults and government-engineered bailouts. Several months after the collapse, world financial assets declined by approximately $50 trillion (Adam 2009). Financial institutions' capital bases, which were heavily invested in derivatives, effectively evaporated and lending stopped. Governments responded with massive capital injections into banks, but spending, real investment and lending has not surged back as of mid-2011. The US economy shed millions of jobs, and experienced a spate of bankruptcies, a slowed economy and tight credit markets. For weaker government debtors – like American states or more financially-precarious national governments – avoiding default has become a problem. The Western countries have largely stagnated, and much of the world economy has suffered as a result.

Yet, the medium-term economic response seemed similar to those of previous crises. After a public rescue, banks and large businesses have been hoarding capital, and the financial sector has boomed. Over-the-counter derivative markets actually grew since the crisis, reaching market values of $25 trillion (roughly half of world GDP) by June 2011 (Bank for International Settlements 2010). Governments have been issuing nearly cost-free money to banks, which they have re-loaned at higher rates. Re-regulation has been modest, and international central banking reform has focused on peripheral changes – like adjusting private banking capital requirements or creating new supervisory agencies – as opposed to more profound reforms like restricting or taxing speculative activity.

The economics of neoliberalism became clearer over three decades: increasingly deregulated and volatile debt was used to promote demand and fuel apparent prosperity. In many ways, it was a form of disguised Keynesianism with a drastically different distribution of costs and benefits: instead of being taxed to pay for public goods, the wealthy lent governments money to finance deficits. When the nature and complexities of the underlying financial reality threatened to overwhelm the system, governments would come to the rescue and begin the cycle all over again. In the summer of 2011, negotiations over the American debt ceiling and the euro crisis and the proposed solutions sounded remarkably like earlier episodes. Despite talk of the "end of capitalism as we know it" around 2008, the economic rules of the game remained essentially the same.

The Politics of Neoliberalism

Neoliberal-era economic changes coincided with a political transformation, and the two are undoubtedly intertwined. Post-Depression liberalism, Keynesianism, welfarism and unionism lost support during the economic troubles of the 1970s and 1980s. Liberal economic policies first gained serious traction in the US and UK, but influenced policy debates across the West. By the end of the Cold War, Western economic institutions offered monetary inducements and advice to engage in liberal reforms and integrate themselves economically in global markets. By the early 1990s, liberalism gained clear political traction, but inequality and financial instability soured developing countries' appetite for it as the decade progressed. These policies remained firmly entrenched in the West over the 2000s, although neoliberalism's ability to motivate deeper liberalization reforms slowed. With the 2008 financial crisis, faith in the liberal world economy collapsed, but financial-systemic problems made it difficult to engage the crisis with mid-century "big government" solutions.

The birth of the neoliberal paradigm begins with a system wide crisis of state legitimacy in the 1960s and 1970s (Drazen & Grilli1993, Hall 1992). Throughout much of the developed world, political, economic and social crises strained the social compacts that kept mid-century "mixed capitalism" politically influential. Although scholars have identified several early political changes that preceded the neoliberal shift – like racial integration, anti-war and anti-colonialist sentiments, identity politics and increasing strike activity – many of these currents did not immediately threaten the continuity of mid-century government interventionism. At the beginning of the crisis, most countries responded with social spending and regulatory tinkering. As Richard Nixon famously suggested, everyone was still a Keynesian. Yet as the crisis continued traditional mid-century policy instruments seemed unable to restore economic order (Appelby 2010, Brenner 2006, Eichengreen 1996, Fourcade-Gourinchas & Babb 2002, Frieden 2006, Habermas 1975, Maddison 1991). Moreover, the Stagflation Crisis shook geopolitical relations. America's standing seemed weaker with the end of the Vietnam War and developing countries' new efforts to cartelize commodity exports like OPEC (Stein 2010). America's humiliation in Iran's Revolution capped a long period of malaise over the country's potential decline.

Much as has been said of FDR's New Deal, neoliberalism was a way for the system to survive its own contradictions. It was effectively a scheme to resolve the crisis in at least two ways. First, it sought to restore state solvency and financial-systemic stability by bolstering and attracting the money of a burgeoning world financial market (through privatization, new inward investment, and investment market growth) and attracting hard currency by pursuing exports and assuring monetary stability. Financial stabilization, and not the creation of some market-led long-term development, often sat at the root of neoliberalism's initial global thrust (Hall 1992). Second, the notion of "market exigencies" provided political cover for contentious policy changes. In

developing countries, for example, the Washington Consensus' loan conditionalities created an occasion for countries to cut politically well-defended entitlements and thus theoretically escape the fiscal and budgetary pressures they were facing (Blyth 2002, Olson 1996, Prasad 2006).

A key element in this was the radical realignment of large parts of the voting population in the developed economies (Cowie 2010, Jacobs & Zelizer 2008, Sandbrook 2011, Stein 2010). The late 1960s through the early 1980s marked the rightward re-centering of political discourse. Neoliberalism was a break with the "class compromise" between labor and capital that had dominated post-war political economy (Glynn 2006, Harvey 2005). It involved concrete sacrifices of widely-prized post-WWII policy institutions and paradigms (economic redistribution, state-guaranteed economic security, publicly-provided services, domestic ownership and control of key economic sectors, or government protection and provision of "good jobs") which hurt many groups' economic well-being materially, while affording extraordinary wealth and opportunity for other privileged groups. It was often implemented in the face of strong opposition but also embraced by people whom the policy did not seem to benefit (Bartels 2005).

Ronald Reagan and Margaret Thatcher's elections proved critical moments in neoliberalism's rise (Gamble 1988, Yerglin & Stanislaw 1998). Their apparent economic success during the 1980s solidified views that free market economics provided a sound basis for policy, and many countries followed suit. Those who resisted neoliberalism could face capital flight and short to medium term economic pressures (Fourcade-Gourinchas & Babb 2002, Sachs 1989). With the leadership of pro-market leaders like Mikhail Gorbachev and Deng Xiaoping eliminating any global alternative, opponents of neoliberalism found themselves with fewer geopolitical poles to which they could cling.

This political ascendance accelerated a dramatic decline of labor's influence . The incidence of labor strikes grew substantially during the 1970s and early 1980s (Piazza 2005), which posed a particular problem for OECD governments during a period of long-term public sector union growth (Freeman 1988). In response, neoliberal administrations took strong anti-union positions. Victories over air-traffic controllers and coal miners were not only perceived as legitimate and necessary, but signaled a profound change in de facto government deference to unions (Northrup 1984, Towers 1989).

The disintegration of the domestic political compacts that had dominated in the post-war period presented a situation in which new policies could be advocated and new alliances forged (Hay 2005, Katz 2010, Pierson 1994, Pierson & Skocpol 2007, Quinn & Toyoda 2007). The rise of what we might call the "charismatic right" (Berlinski 2008, Hayward 2010) was accompanied by the wholesale retreat of the traditional electoral left. This included by a rejection of the left by significant parts of the middle class, including the better-paid sectors of the working class. In part a pragmatic response to a string of defeats, in part a reaction to structural changes in the global economy, and in part as a generational transfer of power, the elaboration of "third-way" Clintonism and New Labour removed any political challenge to the domination by the market centric rhetoric of the right (Driver & Martell 2006, Giddens 1998, Hale 1995, Ryner 2010). In the US, Democrats sought to placate financial markets and prove their pro-business mettle by tackling welfare reforms that made eligibility more restrictive, focused on helping those who were most employable, and offered proportionally fewer cash payments, changes that fell particularly hard on the "undeserving" (like the unskilled, those with criminal records or drug abuse histories, and single mothers) (Danzinger 2010, Handler 2009). With few exceptions, the governing left embraced free trade, and, most significantly, the general deregulation of economic life. They also continued

strong anti-inflation measures, enacted modest reversals of early neoliberal administrations' regressive tax changes, and worked actively to further deregulate capital markets.

The rightward turn of the left provided a more human face to "liberalism as actually practiced" and made it palatable to parts of the electorate who would have previously been more ambivalent about this ideological shift. In many Western quarters, neoliberalism gained a great deal of political cachet as a policy position that resisted the allure of financially imprudent populism and embraced the often unpalatable but necessary discipline of markets. It provided the means by which the political right could credibly claim the mantle of a hard-headed, sober economic manager, which the political left was often anxious to co-opt.

The centrality of politics belies the contention that neoliberalism was anti-statist (Harvey 2005, Hay 2005, King 2006, Kurtz & Brooks 2008, Mann 2000, Mudge 2008, Murillo 2002, Ohmae 1996, Polillo & Guillén 2005, Rudra 2002, Wolf 2001). Although globalization was predicted to transform government completely, it did not lead to several theorized or intuitive changes. For all of the talk about "small government", states rarely shrunk in any substantial absolute sense. Neoliberals' attack on the welfare state *was* vociferous. In the OECD, welfare state spending did become substantially less generous during the 1980s and 1990s, but stabilized and somewhat retrenched itself (Achterberg & Yerkes 2009, Brooks & Manza 2006, Skruggs 2006). The developing countries varied in the social protections offered before and after the worldwide neoliberal turn (Mares & Carnes 2009), but some evidence suggests that welfare spending generally decreased there between 1972 and 1995 (Rudra 2002:412). Neoliberalism sacrificed some public sector projects (public employment, aid to the poor, industrial subsidy or well-funded upper education), but still managed to maintain broad-based government guarantees of economic security, like unemployment insurance, pensions or medical insurance. Its costs were socialized in

ways to made organized opposition difficult (Dreher et al. 2007, Hanson 2009, Storey 2008). Governments remained very powerful in the neoliberal era, and maintained very expansive, although different, roles in steering the economy (Kurtz & Brooks 2008). One clear trend was the shifting of institutional power within the state towards the agencies managing relations with capital (central banks, finance ministries) as their policy perspectives and preferences came to dominate those of more welfare oriented organizations. In the end, neoliberalism was very much a state-directed project, but the interests represented by these same states changed as did the central actors defining policy.

Globally, the shift can be understood on two levels. The first is a radical change in the postwar balance of power between domestic voters and global interests (Shefner & Férnandez-Kelly 2011). In the US and globally, the financial sector itself became more concentrated, with national banking markets coalescing around a smaller number of internationally competitive firms, and the focus of capital investment internationalized (Verdier 2002). The internationalization of capital increasingly separated economic power from direct political control (Eichengreen 2008, Hacker & Pierson 2011, Helleiner 1994, Shaxson 2011, Simmons 1999). Second, neoliberalism also marked a profound change in the government's understanding of how states' geopolitical interests were best pursued. In the shadow of World War II and the Cold War, global politics trumped economic orthodoxy in determining policy preferences and financial support. This strategic perspective was transformed by the end of the Cold War. The collapse of the Soviet Union in 1989 served as the capstone to a decade long apparent victory of market mechanisms and the disappearance of feasible alternatives. Concerns about military dominance, geopolitical alliance, industrialization, national self-sufficiency and the pacification of domestic discontent gave

way to the pursuit of aggregate growth, inflation control and public debt management (Abdelal 2007, Baldwin 1993, Hasenclever 1997, Keohane 1993, Waltz 1979).

As the state sought the approval of a global financial market able to inject desperately-needed funds, measures of investor confidence would replace political polls as bellwethers of a government's success (Deeg & O'Sullivan 2009). In this way, neoliberalism did not so much mean the end of the state, but rather a significant change in the meaning of citizenship within states (Mitchell 2003, Ong 2006). Rather than being seen as the ultimate defenders of the rights of their citizens, states came to be perceived as clients in a global bourse. Tellingly, the ability to resist "populist" demands increasingly became the most prized characteristic of a "responsible" (and thus investable grade) state (Roberts 2010).

Under neoliberalism, the most definitive gains accrued to those with the capital constantly being pursued by governments (Atkinson et al. 2011, Burd-Sharps et al. 2008, , Hallock 2011,). The greatest labor wage gains accrued to senior managers in large firms. Often, middle-class workers were hit hard, having lost once-gainful manufacturing and public sector job opportunities. In many developed countries, labor markets underwent a bifurcation into a privileged tier of people who capitalized on their training to earn rising wages, and a second tier of those subject to deskilling. Changing government finances also played a role in this complicated distributional picture. Neoliberalism often brought regressive taxes – like value-added taxes or capital gains exemptions– which tend to exacerbate inequalities while reducing the relative fiscal burden on capital. In the US, regressive taxation seemed to be decisive in bringing that country's wealth inequality levels back to their pre-Depression levels (Piketty and Saez 2003, Siemrod 1996). These tax changes occurred alongside a decrease in many public service provisions.

Unequal benefits accrued between countries as well, but differential accumulation is somewhat more complex at this level of aggregation (Cohen & Centeno 2006, Firebaugh 2006, Korzeniewicz & Moran 2009). The fastest growth was realized in three major emerging regions – the Far East, South Asia and Eastern Europe – all of whom grew by establishing themselves as manufacturing outposts for the rich world. Manufacturing job losses in richer countries helped a large number of once rural poor in the developing world, who often migrated to the city in order to seize upon the job opportunities that were afforded by OECD off shoring. This arguably led to a sharp decline in per capita global inequality, but the benefits accruing to many in the developing world are the subject of debate (Babb 2005,)

The political world of neoliberalism may be best understood as based on increasingly asymmetrical power. The central question within the political analysis of neoliberalism is the extent to which it occurred as a response to asymmetries and economic changes or due to the direct exercise of class and global power. Margaret Thatcher defended her policies with her famous TINA: "there is no alternative". Was this true or was it simply convenient for some that none arose?

Some explanations of neoliberalism's rise focus on the structural shifts in the global economy and treated resulting policies as an inevitable and sensible response to these (Boix 2010). Such pressures were perhaps best expressed by James Carville's wish to be re-incarnated as the bond market so that he could intimidate everyone (*Wall Street Journal* (February 25, 1993, p. A1). Globally, the supremacy of the United States and the hegemonic appeal of its model should not be underestimated (Blyth 2007, Bourdieu & Wacquant 1999). The power of American orthodoxy took many forms and ranged from hard to soft (Babb 2005, Gill and Law 1989, Piehwe 2006, Stokes 2001, Weyland 2004). Moreover, beginning in the 1980s, the commanding heights of state

power throughout the developing world came to be dominated by market friendly technocrats in general agreement with the need to free neoliberalism from politics (Babb 2004, Centeno 1994, Montecinos & Markoff 2001, Silva 2009).

Yet, increasingly the argument has been made that the financial turn in global political economy was not the inevitable response to nameless forces beyond political control, but very much a product of direct political influence, not just by the amorphous capital markets but by the direct collusion and influence of a narrow group of individuals whose personal or institutional control of vast amounts of money allowed them to buy their respective polities (Dumenil & Levy 2011, Hacker & Pierson 2011, Morgenson & Rosner 2011). Policy choices in the developed world were at least partly shaped by the influence of the ever growing need for electoral campaign spending and simple personal corruption. Under neoliberalism, citizenship became like equity: the more shares or wealth, the more votes or influence. As the bottom 90% had little wealth other than their citizenship claims on states, the greater limitations on these institutions meant that they were also politically poorer. Globally, the economic survival of the United States rested on liberalized international capital markets' ability to provide it with seemingly endless amounts of credit. Its fiscal interests became profoundly tied to the expansion of global financial markets. And it used all its power and authority to make sure they kept growing. The diffusion of neoliberalism in the developing and ex-socialist worlds was tied to the imposition of policy preferences in exchange for foreign aid or emergency financing from the US or international financial institutions (like the IMF or World Bank) (Bromley & Bush 1994, Edwards 1995).

The victory of George Bush in 2000 was an important element in the increasing disenchantment with the new liberal order. The Second Bush administration did great damage to the credibility enjoyed by key neoliberal policies and political conservatives' claim to prudent

economic management. As the apparent success of the US had fueled the neoliberal revolution, so its patent failures helped diminish its appeal (Fukuyama 2006).

Over and above the political incompetence of Bush's "Mayberry Machiavellis", the fiscal system behind neoliberalism and the accompanying creation of deregulated financial markets were their own worst enemies (Blankerburg & Palma 2009). Conservative governments stopped enforcing a class wide rationality that would ensure the survival of the golden goose and allowed domestic and international capital to serve it at the banquet. Ever lower taxes for the rich meant ever greater deficits. Ever greater accumulations of money led to a constant pursuit of investment return and a rise in the acceptable level of risk. The same story played out on the micro level: one of the most effective means for disguising the growing inequality (along with the absolute increase in per-family paid labor) was the boom in household debt which allowed many in the developed world to consume at a prodigious rate even as their wages stagnated (Rajan 2010). This debt burden (in part supported by a variety of asset bubbles) increased the fragility of the system to any disruption in credit (Milanovic 2009). The de-regulation of finance and the pursuit of ever larger profits created an unstable machine ever more susceptible to a "normal accident" (Crotty 2008, Haldane & May 2011).

The near-collapse of US financial markets, and the negative repercussions of other countries having relied on US financial or trade markets, have severely damaged the US's international reputation as an example of advanced, sound policy-making. Certainly no one is speaking seriously anymore about a perpetual American global empire. But this shift accompanied remarkable stability in domestic politics and in the basic principles of global governance. Despite the election of Obama, for example, an enduring new Democratic coalition did not materialize. Conversely, despite the conservative victories in 2010, neither British nor

American voters were ready to roll back the welfare state altogether (Bartels 2011, Gamble 2009, Lindvall 2011). There was anger, but little real revolutionary fervor. There was even less of a fundamental transformation in the regulation of global commerce. How could a political system survive such a shock?

The Culture of Neoliberalism

Our third analysis of neoliberalism is as a cultural project. We begin with the observation that the concepts, theories and ethical positions that we use to understand economic life and frame economic policy dilemmas change over time (Hall 1989, Sommers & Block 2005). Basic comprehensions of economic policy – like the ultimate purposes towards which economic governance is oriented, the optimal or practical short-term means to secure long-term goals or even the basic character of governments, markets and transactions – emerge or are propagated. Once these comprehensions are integrated into people's everyday thoughts or behaviors, they become disposed to reproduce practices that lend themselves towards society's assumption of particular macro-organizational features; they become the "touchstones of rationality" (Polanyi 1944:142).

Obviously, this world of ideas does not exist in a social or political vacuum. Causality flows from the reality of economic life as well as its interpretation. This is not the place to dispute the (ever debatable) primacy of one arena over the other. Nevertheless, it seems clear that the assumptions underlying our understanding of the political-economy is as fundamental a force behind the rise of neoliberalism as political or economic factors (Berman 1998, 2002, Campbell 1998, Mandelbaum 2001, Murillo 2002, Simmons et al 2008, Rogers 2011). Thus, for example, inter-statal competition for capital may not have been as important as the perception that such competitive strategies were expected and necessary of "responsible" global players (Hay 2006, Hay & Rosamond 2002). No matter one's views on its costs and benefits, we need to understand

neoliberalism as the triumph of an ideology (Mirowski & Plehwe 2009) or in Bourdieu's less felicitous terms (1999), "the tyranny of the market".

Neoliberalism involved a set of often unacknowledged choices. It privileged aggregate growth, stable prices, productivity and efficiency enhancements and the protection of private property over distributional equality, guarantees of personal income or access to essential goods and services, leisure (or non-work) time and environmental sustainability. It is vital to remember the practical universal appeal of such beliefs from the mid 1980s on. This very unanimity became its own causal agent as it made it increasingly difficult for even green-shoots of alternative views to survive politically. When assumptions are left unquestioned and treated as immutable facts guiding policy-making, they structure the economic policy choices made in the public sphere. Thus, neoliberalism is not strictly an expression of accumulated technical knowledge or the simple imposition of class advantage, but what Kuhn (1996[1962]) would call a dominant paradigm and Antonio Gramsci (1992[1927]) would call hegemony.

We can distinguish three different levels on which this hegemony was exercised: within expert communities and the academy, within policy and government circles, and (most importantly) as an expression of popular culture.

The market's first great victory was in the academy. The principles underlying neoliberalism first established their monopoly in the economics profession and from there engaged in an imperial conquest of other fields (or their delegitimation) (McNamara 2009, Oatley 2011). What is particularly fascinating about the relationship between academic economics and the rise of neoliberalism is that even as the level of abstraction and formalism of the former increased, so did its influence in shaping policy (Reay 2007).

The intellectual history of the shift from Keynesianism first involved an epistemological core privileging mathematics and formal models over institutional, historical, or structural accounts. What mattered (at least in the dominant US profession) was the elegance and parsimoniousness of the argument and the cleverness of the econometrics (Fourcade 2010, McCloskey 1994). Substantively, academic economics over the past 50 years witnessed (in rough order) the victory of monetarism (and thus a focus on interest rates and inflation), rational expectations (explaining why public economic interventions were useless), and the efficient market hypothesis (which explained why such interventions were unnecessary) (Fox 2009, Mankiw 2006, Taylor 2010). Developing on a parallel (but not unconnected path), the discipline came to be increasingly dominated by finance (Elliott & Atkinson 2009). Most importantly, beginning in the 1980s, economics as a discipline was characterized by orthodoxy and relative unanimity regarding what policies were possible, which were no longer realistic, and what constraints all had to accept (Farrell & Quiggin 2011, Peck 2010).

What linked this epistemic community (Haas 1992) was the normalization of markets, or their portrayal of them as inescapable natural laws of social life--- immutable and inescapable market forces -- that would ultimately undo any effort to subvert them. The equilibrium outcomes that would inhere in pure markets were understood as analogous to gravitational laws in physics, in the sense that they could be violated temporarily with the expenditure of great resources, but never permanently. This led to the nominal depoliticization of political economy. Despite considerable evidence to the contrary, economic policy saw itself as divorced from interests or power and merely responding to the demands of the unconscious yet omniscient market (Hirschman 1981, Palma 2009). Paraphrasing 19th Century positivists, this view pushed for "less politics, more economics". Since there was only one truth and it could be known (through the right science),

those who sought to bring political issues to economic policy (e.g. distribution or inequality) were merely playing class warfare. Since economists were uniquely qualified to interpret this truth free from political preferences, they should be given a principal role in the elaboration of economic policy. Paradoxically, as economics sought to move farther away from Keynes, to be less engineering and more science (Mankiw 2006), it confirmed this faith in the influence of "defunct economists".

The impact of these academic musings was considerable (MacKenzie & Millo 2003, Peck 2010). By the mid-1980s, discursive processes led to the practically political, or at least policy, monopoly by what would have been called the conservative right only a decade before, but was now seen in much softer light as the reasonable, pragmatic center. Full of confidence in that their policies had brought the wealthier countries out of the economic doldrums, policy makers began defining an economic guidebook which they sought to apply in the developing and, after 1989, in the post-socialist world. The victory of these views in part reflected the confidence of the new ideas and the equally important frustrations with the old ones (especially obvious in Eastern Europe).

By the 2000s, market fundamentalism had lost much of its cachet among mainstream economics (Klein & Stern 2006), but retained cultural visibility through the work of "transnational advocacy networks" of think-tanks and other international organizations (Babb 2009, Bockman 2007, Bockman & Eyal 2002, Chwieroth 2010, Teles & Kenney 2008). Often, these groups had *a priori* commitment to free markets, and their faith is often rooted in political-philosophical arguments, like equating "freedom" or "liberty" with political systems that prioritize private property rights, deregulation and limited governance (Friedman 2000, Hayek 1944). The association of free markets with democratic rule and the apparent indivisibility between these goals

informed much of the political economic debate on the 1990s, further enhancing the intellectual appeal of the specific economic principles involved. The logical equivalence of American power with the virtues of free-ranging capitalism further cemented the appeal of liberalism.

Internationally, efforts to impose a market hegemony were greatly assisted by the fact that one group of countries appeared to be using global market mechanisms to climb out of poverty into unimaginable wealth. The trade-led wealth of the Tigers stood in stark contrast to the autarchic stagnancy of many Latin American countries, the collapse of the socialist model, and the decline of Africa. The story of the Asian Tigers could be told in two ways. In one, an effective and powerful state had steered its domestic economic mechanism extremely adroitly and had benefitted from a particularly friendly global environment. A much more common reading in the 1980s and 1990s, and one supported by many in policy circles, ignored the role of the state and historical timing and made the simplistic judgment that the East Asian miracle confirmed the centrality of comparative advantage. The purported benefits of trade openness soon morphed into broadly-stated benefits of free markets and disadvantages of state-managed development strategies (Bruton 1998). Thus, countries in the 1990s facing policy choices were not only constrained by the resources available and the demands of those who had the resources, but also the visibility of an apparently opposite and successful model to the policies they had followed (Kohli 2010, Teichman 2001, Weyland 2004, Williamson 2009)

In retrospect and given the crisis of 2008, perhaps the most important legacy of this policy orientation was not trade or fiscal policy, but a broad and deep deregulation and privatization of economic life (Megginson & Netter 2001). Neoliberal pundits consistently and effectively used what Albert Hirschman (1991) identified as the "rhetoric of reaction": any policy shift away from

market logic could only resort in futility, perverse outcomes, and systemic jeopardy[1]. The neoliberal perspective highlighted the senselessness of creating government-imposed rules that would steer individual behavior effectively. Regulations could, and often were, circumvented, leaving economies open to fraud and black market activity (Krueger 1974). This kind of argument was often used to justify tax reductions on the rich, who were argued to respond to high taxes simply by evading them. Onerous regulations, it was often argued, prompted enterprises to simply drop out of formal markets, which not only eroded the effectiveness of economic planning but also deprived the state of taxes. For those who subscribed to these views, market regulation was not unlike alcohol prohibition – it was expensive, ineffective and fraught with negative unintended consequence – and a realistic approach to policy-making involved being cognizant of this practical reality (De Soto 2002). These preconceptions also led to a shift in the assignment of political responsibility of economic goods and costs: private financial "innovators" would assume a heroic role in the emerging neoliberal psyche, while unions and public spending recipients would increasingly be construed as villains (Sommers & Block 2005).

Market triumphalism enjoyed its greatest popularity when proponents of neoliberalism had the decisive benefit of comparing the theoretical benefits of an abstract free market system to those of real-world interventionist systems. Finding failures in government interventionism was fairly easy, because virtually all of the world's governments intervened actively throughout their economies. Criticizing the proposition that unfettered markets would cause serious problems of their own was much more difficult because no serious contemporary empirical referents existed. Various currency crises, for example, intensified arguments over neoliberalism's desirability, but

[1] With thanks to Mark Blyth and his blog http://triplecrisis.com/the-problem-of-intellectual-capture/.

never broadly delegitimized the policy program. Indeed, the First World's resilience to these crises (prior to 2008) probably fortified advocates view that market development made countries stronger. Developing countries were advised to emulate America's national economic model more strongly after the 1997 crises, and many of them did (Halliday & Carruthers 2009, Onis 2009). However, Argentina faced a similar crisis in 2001, and decided to take a hard stance against the IMF and foreign creditors by defaulting. This move, and Argentina's rapid rebound a few years later, took on great symbolic significance in Latin America during the 2000s (Orlansky et al. 2006), and would figure prominently in the European financial austerity debates after the 2008 crisis (Lanchester 2011).

The skepticism about public regulation and the increasing faith in market mechanisms had significant political effects over and above specific policy preferences. Basic precepts and assumptions of human behavior empowered elite political and economic actors to the detriment of middling and poorer classes' propensity to act collectively. For example, recasting labor relations as market transactions between two types of individual entrepreneurs – the proprietor-entrepreneur and the laborer-entrepreneur – expunged a range of basic notions that guided mid-century labor relations from our collective consciousness: the exigencies of fairness in bargaining and compensation, the possibility that workers have inalienable protections from their employers, or the potential benefit of collective action. Similarly, the cult of individualism undermined efforts to organize through the creation of identity communities, with the significant exception of the newly energized nationalism.

At the household level, the triumph of the market was heralded by an explosion of consumption perhaps unique in human history (Jacobs 2011). A veritable culture of spending (supported by debt) developed in practically every region of the world and the ubiquity of goods

and services became arguably the most powerful argument for the sanctity of the market. This came with a significant increase in the amount of leisure time available and (in many jobs) a decline in the dangers and exhaustion associated with them (Schorr 1999). Simply put, people felt they were living much better thanks to the market (Baker 2005, Emmott 2003, Inglehart et al 2008,) and many actually were (and not just in terms of electronics per capita but also as measured by indicators such as Human Development Index). The issue is not to question the 1990s boom, but to challenge the assumption that market fundamentalism was responsible for it.

More important, the language and logic of market exchange came to pervade daily discourse and political analysis (Amable 2011). The sanctity of individual choice was elevated to the highest priority, cost-benefit analysis could provide guides for behavior, inequalities were justified, functional, and inevitable. Political appeals based on collective identities, shared sacrifice, and basic rights were deemed naïve at best and dangerously totalitarian at worst. The broader culture of the market convinced many that the potential rewards were worth the insecurity (Ho 2009, Rogers 2011, Wedeen 2010).

To what extent could these cultural shifts help explain the Global Financial Crisis (GFC)? Two of the most common words found in accounts of the events leading to 2008 are avarice and hubris. Usually these are used to refer to individual malfeasance, but the more interesting possibility is the extent to which these helped define a neoliberal economic culture that undermined its foundations. It is important to recall the hubris with which the market was proposed as the institutionalized solution to practically every human problem. In this Panglossian utopia, the market could resolve all conflicts and provide optimal distribution without external regulation. This came along with a rejection of any limitations of what any individual or society

could enjoy. The subsequent crash cannot be understood without appreciating the extent to which significant parts of humanity came to be convinced that we were going to have it all.

Could the changes being experienced in the Great Recession affect our broader cultural embrace of laissez-faire and sow grassroots anti-market attitudes? There were indications that popular attitudes and behaviors changed in 2008 and early 2009. The vilification of bankers and of Wall Street in general, the desanctification of CEOs, and the growing awareness of inequality seemed to indicate a potential cultural change along the same liens (if in different directions) from the early 1970s. However, in a process that should receive a great deal of study over the next few years, this public doubt of the market was transformed into a divided and often amorphous populist anger that did not appear to question the very rules of the system. Yes, some bankers were bad and someone "out there" was benefiting inappropriately, but the fundamentals of market logic remained unquestioned.

Rolling back neoliberal policies in banking, insurance, and healthcare elicited strong, visceral reactions. The extent to which this once again reflected a class strategy using resources to dominate public discourse is open to investigation. The return of "socialist" as a term of political disparagement in the United States could reflect an inherent conservatism in the population or could also be an extremely effective media strategy to close off policy options. In any case, for all of the anger levied at private enterprise, particularly in finance, the sanctity and inevitability of markets remained dominant. Combined with serious doubts about the possibility of political responses, this made it difficult to begin imagining alternatives.

Conclusions

What can we learn from the life cycle of neoliberalism? Over and above substantive historical lessons, we believe this review suggests two more general insights. First, it is imperative to recognize the cultural or ideational element to economic governance. Second, it is equally important to recognize that economic policies do not involve exclusively the search for universal principles, but political choices about who wins and who loses. The combination of apparent inevitability with the notion of non-zero-sum outcomes was extremely powerful. For decades we lived in a world where the dictates of global finance appeared to enjoy the immutability of gravitational laws and where the sacrifice of social interests on the altar of "investor confidence" appeared inevitable. But, we should learn that such an approach involved a set of political choices and the relative appraisal of a set of interests and principles. Any new policy paradigm must not make the same mistakes.

Does the crisis of 2008 look like its predecessors? Should we expect transformation of political-economic rules similar to those that occurred after 1929 and 1973? As in 1973, the post-GFC policies must address a political crisis of confidence in the capacity of the global economy to generate equitable growth, but it must do so in light of even more imposing challenges. First, it is unlikely that any new model will enjoy the political and ideological consensus enjoyed by market centric policies in the 1990s. It is much more likely that the political divisions inherent in economic choices will be less masked and more explicit. Much more so than in the 1970s, for example, the need to placate global capital with "fiscal discipline" will be recognized as having significant equity effects. Second, the capacity of individual states to define and impose their own policies will be much more constrained as the integration of the global economy (and in the case of the EU, polity) has closed significant policy paths. Finally, the ever more obvious environmental constraints will curtail the adoption of simple growth oriented strategies as we approach the limits

of the carrying capacity of the globe. For now, the dominance of neoliberal political economy appears stable, but this to originate in the absence of options than the kind of broad acceptance these policies previously enjoyed.

In August 2011, the lack of policy choices is systemic and arguably the most interesting stage in the arc of neoliberalism. There do not appear to be any economic, political, or ideational alternatives in sight. This either proves the inherent inevitability of neoliberalism or demands a deeper sociological analysis of the roots of public policy and political action. We hope this review encourages the latter.

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