

Understanding Neoliberalism

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12 Feb 2021

‘Neoliberalism is the defining political economic paradigm of our time – it refers to the policies and practices and processes whereby a relative handful of private interests are permitted to control as much as possible of social life in order to maximize their personal profit... The economic consequences of these policies have been the same just about everywhere, and exactly what one would expect: a massive increase in social and economic inequality, a marked increase in severe deprivation for the poorest nations and peoples of the world, a disastrous global environment, an unstable global economy and an unprecedented bonanza for the wealthy.’
Introduction by Robert W. McChesney in Noam Chomsky’s book ‘Profit over people: neoliberalism and global order’

A letter titled ‘Neoliberalism’ that appeared in Business Recorder on my op-ed article published here ‘Need for reformed Bretton Woods institutions for the ‘new normal’’, needs to be addressed because dealing with the challenge of Neoliberalism is not only important for bringing economic justice and saving democracy, but even effectively dealing with the fast-approaching existential threat of climate change, and the reported link it has with the current pandemic. Firstly, there is neither anything ‘new’ or ‘liberal’ about Neoliberalism – it wrongly invokes Adam Smith, the father of modern economics, and a true liberal who understood the importance of strong and meaningful government regulation, to effectively deal with market’s unchecked freedom, to allow in turn the powerful and wealthy to use it to their own benefit.

In this regard, for instance, the way concepts ‘invisible hand’ and ‘division of labour’, among others, have been written about and propagated by Adam Smith is totally opposite to what is glorified and mainstreamed by neoliberal/Washington-consensus policies. Noam Chomsky highlights this as: ‘Adam Smith is very rarely read. He is worshiped, but not read. And so, for example, everyone’s heard of the phrase “invisible hand,” but almost no one knows, well, how he used it. The term “invisible hand” actually does appear in his classic Wealth of Nations — once. It appears in an argument against what’s now called “neoliberalism.” What’s now called “neoclassical economics,” that we’re supposed to worship. So we’re supposed to worship Adam Smith, and neoclassical economics, and they radically differ on the notion [of] “invisible hand.” Adam Smith was concerned, as David Ricardo later was, that if there was free movement of capital and free import of goods — he was concerned about England —,he said, England will suffer because British capitalists will invest abroad, and they’ll import from abroad, and that’ll

harm the English economy. Ricardo had similar concerns. Adam Smith then gave an argument. It's not a very good argument, but his argument was that English investors will prefer to invest in England because of what some called a "home bias" — they'll have a preference for investing close-by. And therefore, as if by an invisible hand, England will be saved from the menace of free capital movement and free imports. That's "invisible hand." What's that got to do with the Cato Institute, or the modern enthusiasm about free capital flow and, you know, having US corporations invest in China so they can send stuff back here to sell cheap, exploiting Chinese workers? That's not Adam Smith. And it goes right across the board.'

That it is 'not new' is pretty clear in terms of how its principles were ramped-down by colonial masters on colonized countries to extract resources, and pull-down Egypt and India, for instance, who were otherwise well-poised to transform into industrialized countries, into becoming a part of the Third World. In fact, when the western countries did apply the same policies in their own countries for a short time, their economic output and employment levels suffered, due to which they rolled back on these policies. Hence, if the 'theory of comparative advantage' was applied so vociferously — as was in colonized countries and later on through neoliberal policies in developing countries — by the founding fathers of the United States, it would, most likely, have been part of the developing countries still primarily dealing with exporting raw materials, and countries like India if not had to follow these so-called 'sound economic principles' — the manufacturing hub during the eighteenth, and even early nineteenth centuries — would have been the First World.

Yet the same continued in colonized countries, and later on in developing countries through neoliberal policies. What changed though for the developed world was that the assault of the collusion of politico-economic elites — mainly through the channel of corporations-financed-elections then having big sway on public policy to their advantage — unlike the colonial times, did not allow these developed countries to follow the same path and remain away from neoliberal policies since around the last four decades or so. One, therefore, sees the devastating effects on environment, economy, and politics in many developed countries as well — but for instance not in welfare-oriented social democratic Nordic bloc — but not to the same extent as developing countries, more so because, among other factors, their economic institutions and regulation fundamentals are much weaker in comparison.

Renowned economic historian, Paul Bairoch, thoroughly documents this approach of double-standards in his two works 'The economic development of the third world since 1900' published in 1975, and the other one published in 1993 titled 'Economics and world history: myths and paradoxes'. For instance, in the latter work, he points out in this regard: 'The first hard fact is that what economic historians call the great European depression began during the period 1869-73, when trade policies in Europe had reached an unprecedented degree of liberalism... The second hard fact is that not only was there a severe slowing down of economic growth but also, and all the more paradoxical in the period of greatest liberalism, a decrease in international trade.... The third hard fact is that the United States, which did not take part in the free trade movement (on the contrary, it increased its already strong protectionism), during the period of the great European depression went through a phase of rapid economic growth... in the nineteenth century, the liberal trade experience in the Third World was a complete failure. It is no exaggeration to say that the opening up of those economies was one of the major reasons for their lack of development during the nineteenth century. In fact, the term non-development is an

understatement since it led to a process of de-industrialization and to structural change that made later developments more difficult.’

It needs to be understood that Neoliberalism just made a return after the ‘New Deal’ policies began to take some space back for the masses, in terms of more equal opportunities in politics and economy. With the pandemic and its reported link to climate change, multiple financial crises, falling real wages, and populist politics, all require calling a spade a spade, and launch a counter-offensive in the shape of activism on the contradiction between true liberalism, and its misused version in the shape of Neoliberalism.

Moreover, as I have indicated in my writings that neoliberal policies like deregulation or privatization have been prescribed for countries with otherwise weak economic institutions, and the extent to which they have been prescribed, has not only put the masses at the mercy of the tyranny of the private sector, but also to a collusion of the politico-economic elites. True liberal principles like freedom, liberty, and justice, have come to be violated through the evolved designs of Neoliberalism, which has eroded economic and political freedoms, has been unfair in terms of price of goods and services, both for consumers and producers, and has widely disenfranchised demos.

Hence, this is what needs to be understood, and which is what I highlight through my articles, and which is that there is a stark misuse of liberal principles which are kept as a smoke screen for otherwise underlying vested interests, by neoliberal practitioners or the collusion of politico-economic elites to their own advantage. Walter Lippmann in his (1922) book ‘Public opinion’ and later on Noam Chomsky and Edward S. Herman in their (1988) book ‘Manufacturing Consent: The Political Economy of the Mass Media’, pointed out the use of propaganda techniques to ‘the manufacture of consent’ or ‘manufacture consent’ in their respective works, to allow such type of ‘smoke screen’ to prevail. Hence, the writer like many others, cannot give Neoliberalism a bad name, because what is discussed and highlighted is what it actually has come to represent through its usage, and not its hazy, and out of context mentioning of overall liberal values; which rightfully need to be upheld, and which are exactly what are being denied under neoliberal policies in individual countries, and in multilateral institutions. It is therefore important not to allow ourselves to be confused by populist politics using this for their own vested interests, mainstream media, multilateral institutions, and economic and political education, and rhetoric of many decades, which have not allowed masses from seeing and understanding this conflict that Neoliberalism carries. It has already hurt enough.

Noam Chomsky in his same book ‘Profit over people’ discusses Neoliberalism, and which should be very enlightening, in the following manner: ‘The basic rules, in brief, are: liberalize trade and finance, let markets set price (“get prices right”), and inflation (“macroeconomic stability”), privatize. The government should “get out of the way” – and hence the population too, insofar, as the government in democratic, though the conclusion remains implicit... The “principal architects” of the neoliberal “Washington consensus” are the masters of private economy, mainly huge corporations that control much of the international economy and have the means to dominate policy formulation as well as the structuring of thought and opinion.’