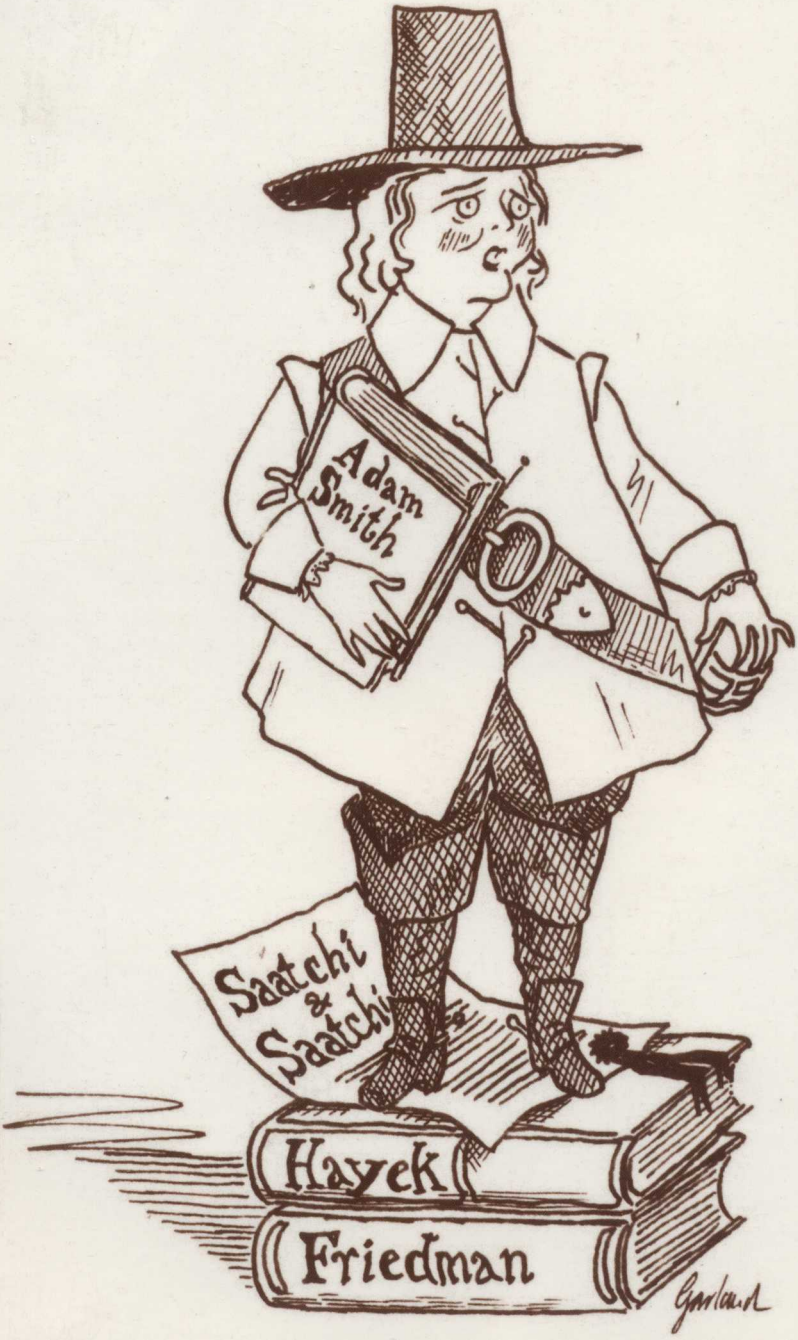
Neo-Liberal Ideology

History, Concepts and Policies

Rachel S. Turner



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For my mother

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Introduction: Reinventing liberal ideology

In one of liberalism's darkest hours in the immediate years after the Second World War, a new ideological movement met at Mont Pelerin in Switzerland to expose the dangers they felt were inherent in collectivism and to create an international forum for the rebirth of liberalism. Liberalism had since its conception regarded itself as the ideological force sustaining Western civilisation. However, in a vast programme of ideological readjustment stretching back as far as the late nineteenth century, liberalism in Western societies began to change its form, contours and emphasis. By the beginning of the twentieth century, the ideological dominance of classical liberal values – free trade and limited government – had given way to a pro-collectivist liberal creed embracing the principles of community, rational planning and institutional design.[1] In a statement of its aims, the Mont Pelerin Society (MPS) described its view of the prevailing crisis:

> Over large stretches of the earth's surface the essential conditions of human dignity and freedom have already disappeared. In others they are under constant menace from the development of current tendencies of policy. The position of the individual and the voluntary groups are progressively undermined by the extension of arbitrary power . . . The group believes that these developments have been fostered by the growth of a view of history which denies all absolute moral standards and by the growth of theories which question the desirability of the rule of law. It holds further that they have been fostered by the decline of belief in private property and the competitive market; for without the diffused power and initiative associated with these institutions it is difficult to imagine a society in which freedom may be effectively preserved.[2]

The MPS sought to secure the conditions for liberalism's survival. The society's principal aim was to influence the direction of post-war liberal

thinking; a task that would involve 'purging traditional liberal theory of certain accretions which have become attached to it in the course of time'.[3] From its embryonic form in the MPS, this liberal movement has created a huge intellectual network of foundations, institutes, research centres, ideologues and scholars who relentlessly publish and package new ideas that would restore the liberal faith and redirect the course of Western civilisation.

Objectives of the book

The purpose of the present book is to determine the contours of this liberal movement, which has popularly become known in academic and policy debates as neo-liberalism. Its principal objective is to uncover the distinct elements of neo-liberalism in the national contexts of Germany, Britain and the United States during the second half of the twentieth century through contextual and conceptual analysis. Neo-liberalism is a term that has come to be used with a lack of precision in contemporary political debates. What it stands for and what it explains is both confused and confusing. Although the 'neo-liberal' label may be ubiquitous in contemporary political discourse, its exact ideological form remains unclear. For example, some accounts of neo-liberalism such as those put forward by Susan Watkins and David Harvey present it as an all-encompassing hegemonic ideology, without actually defining what the term 'neo-liberalism' stands for. Such interpretations suggest that, since the 1970s, a 'neo-liberal state' has been emerging in a global marketplace where state sovereignty is surrendered and personal and individual freedom can be guaranteed. While the 'neo-liberal turn' may have originated in Britain and the United States under Thatcher and Reagan, Harvey contends that it has become, in various shapes and forms, the central guiding principle of economic thought and management across the world, from New Zealand and Sweden to post-apartheid South Africa and contemporary China.[4] Other advocates of this view, most notably Alex Callinicos, maintain that neo-liberalism is synonymous with Anglo-American liberal capitalist values and with the Third Way, under which enterprise and justice can live in harmony.[5] The principal problem with these interpretations is that they isolate neo-liberalism at a governmental level and therefore fail to appreciate its ideological complexity.

This book does not adopt the popular hegemonic view of neo-liberalism, where, in relation to globalisation, the former is seen as the

dominant paradigm of the twenty-first century. Instead, the book highlights the limited impact that neo-liberalism has had on government policy at the national level, and the contradictory obstacles that it faces to the realisation of its liberal programme at the global level. None of the accounts above attempts to trace the evolution of neo-liberalism and considers it in relation to other ideological trends, or unpacks the conceptual structure of neo-liberal thought. The central themes that this book addresses are how neo-liberalism has developed out of the traditions of liberalism, what its core concepts are, how they have been interpreted in different national contexts, and what makes neo-liberalism a distinctive ideology. The contention of the book is that understanding neo-liberalism as an ideology means deciphering the distinct elements typically combined in the term; indicating the variety of its uses in national contexts and the direction of the main path traced during the ideology's rich history. Indeed, from a consideration of the possible range of meanings which the term 'neo-liberal' has carried in Western political thought, it is possible to survey neo-liberalism's intellectual traditions and to isolate the distinct concepts which the ideology has come to conflate. The central aim of the present book is to identify this distinctiveness, to create a genealogy of neo-liberalism and a conceptual map of its core values. To achieve this, the book presents an inventory of the ideology's internal structure, content and shape. While neo-liberalism may not be wholly logical and consistent in its application of ideas and values, the book claims that it is possible to identify those concepts that map its distinctive discursive space as an ideology and give it its internal coherence.

The three countries that the book examines in depth are Germany, Britain and the United States. These countries have been selected because all three adopted, in some shape or form, key elements of the neo-liberal programme. At different stages during the second half of the twentieth century, all three were implacable opponents of state interventionism and supported many of the central tenets of neo-liberalism. The development of the different intellectual traditions in Germany, Britain and the United States has been assigned a prominent place within the body of the book in order to facilitate the reconstruction of the ways in which neo-liberalism drew on these traditions for inspiration and guidance and was in turn shaped by them. The book's intention is to bring to the fore the complex and varied nature of neo-liberal ideology through a comparative examination of these national contexts.

The contours of neo-liberalism

The term 'neo-liberalism' was coined in the 1930s by the German economist Alexander Rüstow, to indicate the distinction between the prevailing pro-collectivist liberal ethos and the principles of traditional liberalism. Neo-liberalism established itself as a variant of liberal ideology, driven by the constellation of threats it faced from rival political creeds to the realisation of its liberal project. In the post-war period many liberal thinkers supportive of 'old' liberal ideas began to push for a return to 'true' liberal values, which meant reconceptualising many of the principles liberalism stood for at the time. This required the recrudescence of an old intellectual tendency – classical liberalism – but with radically altered political dimensions, both to modernise liberalism as an ideology and to meet the economic and political demands of the era – hence the prefix 'neo'. The neo-liberal project strove for a new understanding of the state, economy and society within an ideological framework of traditional liberal tenets. This entailed a major intellectual process of reinvention. Classical liberal tenets were stripped of accretions associated with the past and reinterpreted on a new ideological terrain.[6]

In this book, neo-liberalism is defined by four generic principles or beliefs. In the first place, neo-liberalism places a stress on the importance of the market order as an indispensable mechanism for efficiently allocating resources and safeguarding individual freedom. Using the individualistic methodology of classical economics, neo-liberals maintain that unfettered markets produce a natural order in society from the voluntary exchange of goods and services, promoting productive efficiency, social prosperity and freedom. This system coordinates the plans of decentralised agents more expeditiously than central government by accommodating uncertainty, continuous change and scattered knowledge. While the existence of market failure is acknowledged by neo-liberals, the existence of government failure, they claim, is even more pronounced.[7]

The second generic principle of neo-liberal ideology is its commitment to a *Rechtsstaat* (rule of law–state). The *Rechtsstaat* is a legal state, limited by fundamental principles determined by the rule of law. Drawing on a Kantian view of freedom, law and reason, the *Rechtsstaat* is an instrument of law for the regulation of conflicting relations among autonomous individuals in a market society. The function of this state is to secure social cohesion and stability through the preservation of individual liberties.[8]

The third principle of neo-liberalism is its advocacy of minimal state intervention. Neo-liberals advocate that the liberal state should be strong but minimal: it should embody political authority but at the same time be constitutionally limited. Its roles and responsibilities should be determined by the public interest. Neo-liberalism has modified the principles of pure *laissez-faire* so as to afford the state the primary responsibilities of securing law and order, providing public goods and preserving the constitutional rules that safeguard the market order. What neo-liberals object to is an all-embracing corporate state of the kind found in Western societies in the post-war era. For instance, they do not deny the need for the existence of some form of welfare system, but they insist that a distinction has to be made between an institutional welfare state and a residual system of provision.[9]

The final dominant principle of neo-liberalism is private property. A system of full private ownership forms an indispensable part of a neo-liberal social order, reinforcing the irreplaceable value of the individual against the collective. To neo-liberals, the institution of private property and its corollary, the free market, act as a vehicle for decentralising decision-making and for placing it at the level of the individual. The concept goes to the heart of the public–private divide and, consequently, of liberalism itself, by conceptually delineating a sphere of private ownership and autonomy that no state institution may legitimately invade. As the Austrian economist Ludwig von Mises has commented: 'The Programme of Liberalism, if condensed into a single word, would have to read: property, that is, private ownership of the means of production. All the other demands of liberalism result from this fundamental demand.'[10]

While neo-liberals differ among themselves on the many details of a liberal system, they all support these basic principles. This is not to suggest that there is one 'pure' form of neo-liberalism. Intellectual tensions exist between different neo-liberal 'schools' of thought in different national contexts, which started from different intellectual and historical traditions.[11] Indeed, one of the central arguments of this book is that there are many strands within neo-liberalism, which makes it a complex and varied ideology. The book points out that the complexity of neo-liberal ideology arises not only from the tensions that exists between various liberal schools in different national contexts, but also from their connections with other ideologies on the same end of the political spectrum; in particular, with elements of New Right ideology in Anglo-America and of neo-conservatism and libertarianism in the United States. The overlaps that

neo-liberalism has with other right-wing ideologies is discussed at length in the individual chapters. One of the most fundamental problems in applying the label 'neo-liberal' to specific individuals and movements is that most neo-liberals reject the term, preferring the label 'liberal' instead, or, in the case of the United States, 'neo-conservative' or 'libertarian'. Whilst not all neo-conservatives and libertarians are necessarily neo-liberal, this book recognises that many of their core beliefs overlap with those of neo-liberalism.

The book claims that, despite the differences that exist between particular strands of neo-liberal ideology, in many respects its various schools meet on common ground in terms of their aims, arguments and assumptions, which makes them constitute a coherent and distinctive ideology. Indeed, the book points out the differences that exist in the nature of neo-liberalism in specific national contexts, but the ideas pursued are essentially part of the same political project. For example, the differences between the various forms of liberal constitutionalism that define the German *Rechtsstaat*, the American Constitution and the British Constitution may be marked, yet all three constitutionalisms share the same reservations about unbridled state power and stress the need for its containment within a specified legal order. The book outlines the neo-liberal movement that arose in the post-war years, which generated political convergence around such core principles. The intellectual alliance of the MPS, the institutionalisation of its ideas in think-tanks and the accomplishments of political leaders and parties created an intellectual climate for transforming the nature of liberal ideology. The term 'liberal' subsequently shifted, from designating 'primarily a general attitude of mind' to designating the act of holding 'specific views about the proper function of government', defined within a definitive political programme.[12]

As with the new liberalism in the early twentieth century, there is some ambiguity as to who should be associated with neo-liberalism. A number of pre-eminent neo-liberal schools of thought and their associated thinkers stand out. Among the most powerful exponents of neo-liberalism were F. A. Hayek and Ludwig von Mises, representing the Austrian tradition; Lionel Robbins from the London School of Economics; Walter Eucken, Alexander Rüstow and Franz Böhm, from the Freiburg group; the German ordo-liberals, Wilhelm Röpke and Alfred Muller-Armack; Milton Friedman and Alan Walters, leaders of the monetarist camp; and James Buchanan and Gordon Tullock from the Virginia school of public choice theory. In addition, think-tanks such as the Institute for Economic Affairs

and the Centre for Policy Studies in Britain and the Heritage Foundation and Cato Institute in the United States became a rich source of neo-liberal ideas.[13] Hayek observed that shaping public opinion in favour of the ideals held by the MPS would entail raising and training 'an army of fighters for freedom'.[14] This amalgam of thinkers and ideologues served that function: inside and outside of think-tanks, they both cultivated neo-liberal ideas and made them accessible to wider political audiences.

Throughout the book, various schools of liberal thought are discussed in depth in relation to neo-liberalism. Neo-liberals either have drawn some of their core principles from the ideas of these schools or have vehemently opposed and challenged their beliefs. The most prominent schools of thought discussed are classical liberalism, utilitarianism, the new liberalism, *Liberalismus* (German liberalism), Lockean liberalism, liberal progressivism and neo-liberalism. Table 1.1 distinguishes between these different variants of liberal ideology, outlined in the book. It is designed to make it easier for the reader to decipher the different stands of liberal thought under discussion.

An integral part of this book is the examination of the role that historical and intellectual traditions have played in the formation of neo-liberal ideology. Yet, while there may be an historical emphasis to the book, the book itself is not a study of the history of political thought, but rather of ideology. It outlines the historical and intellectual traditions that neo-liberals have drawn upon and examines how these traditions have been interpreted. The book is not concerned with presenting the ideas behind historical events like the American Revolution, or the ideas of political thinkers such as John Locke, Adam Smith and G. W. F. Hegel in their pure and unadulterated form, but rather in the neo-liberal reading or interpretation of these ideas. The book claims that neo-liberalism is an ideology of reinvention, which borrows ideas from the past and then reinterprets them on a new ideological terrain.

The present book does not present, therefore, a critique of neo-liberal ideas, but rather an analysis of the structure of neo-liberal ideology. Indeed, the term 'neo-liberalism' is not used in a pejorative sense, but to denote a tendency within liberal ideology. The book sees the events leading up to the rise of collectivist ideologies in the early twentieth century as neo-liberals perceived them. Thus it uses the term 'liberal' as a neo-liberal expression, although it recognises that the same term was also used by new liberals such as John Hobson, John Hobhouse and J. M. Keynes and by liberal progressives such as John Dewey, whose ideas neo-liberals

Table 1.1 Variants of Liberalism

School of thought	*Geographical base*	*Approximate time frame*	*Key figures*	*Key principles and ideas*
Classical liberalism	Britain/ United States	1760s–1880s	Adam Smith, David Ricardo, Nassau Senior	free markets, minimal state, 'natural liberty'
Utilitarianism	Britain	1820s–1860s	Jeremy Bentham, James and John Stuart Mill	individualism, democracy, 'social liberty'
New liberalism	Britain	1890s–1940s	J. A. Hobson, L. T. Hobhouse, T. H. Green, William Beveridge	individualism, the common good, social responsibility
Liberalismus	Germany	1770s–1870s	Immanuel Kant, G. W. F. Hegel, Heinrich von Treitschke, Wilhelm von Humboldt	the *Rechtsstaat*, individual personality, law and reason
Lockean liberalism	United States	1770s–1800s	Tom Paine, Thomas Jefferson, John Adams	freedom, democracy, constitutionalism
Liberal progressivism	United States	1930s–1950s	Franklin D. Roosevelt, Lyndon B. Johnson, John Dewey	'social consciousness', rationality, self-development
Neo-liberalism	Britain/ United States / Germany	1930s–1990s	F. A. Hayek, Ludwig von Mises, Milton Friedman, Wilhelm Röpke, Alan Walters, James Buchanan	the market order, entrepreneurship, the rule of law, private property, the 'social minimum'

vehemently opposed. It is, therefore, necessary to engage with the term 'liberal' in a contemporary analytical sense in order to discern the neo-liberals' opposition to its usage within this context. Expressions such as 'the rebirth of liberalism', 'reinventing the liberal agenda' and 'restoring the liberal faith' are, however, presented as explicitly neo-liberal ones, where the term 'liberal' refers to the classical liberal ideal of free markets and limited interventionism. The historical analysis presented in this book is explicitly made from a neo-liberal perspective. For example, the interpretation of Hegel presented in the following chapters is not an impartial academic one, designed to stand up to that type of scrutiny, but rather one that conforms to a neo-liberal interpretation of his ideas.

The remaining part of this chapter outlines the particular approach to ideology that the book adopts in relation to neo-liberalism. The theoretical apparatus of the book is outlined in a discussion of the relations between ideologies and political concepts. Finally, a synopsis of the structure of the work is given.

Neo-liberalism and ideology

This book adopts an approach to neo-liberalism which transcends Marxist theories of ideology by placing less emphasis on issues of truth and distortion; instead, it takes the ubiquity of political ideologies as the starting point of analysis. Drawing on Michael Freeden's approach, this book suggests that a contemporary evaluation of neo-liberalism as an ideology entails a threefold analysis: an analysis of the ideology's internal structure; a contextual analysis of the ideology's historical contingency; and an analysis of the ideology's core concepts.[15]

The first point is that the internal structure of an ideology should not be perceived as a static construction. Ideologies are evolving systems of ideas which interact on a number of ideatic dimensions. As W. H. Greenleaf observes, studies of ideology 'must reckon on and accept multiformity, overlap, divergence, inconsistency, obliquity and change as features intrinsic to their subject matter'.[16] Thus ideologies should be identified not just with similarities, but also with processes of change and adjustment. Freeden, however, makes it explicit that ideologies cannot develop in ways that transform their core concepts. The core is the unchanging part of an ideology, essential to its survival.[17] Seen from this perspective, it may be possible to map the conceptual boundaries of neo-liberalism. The general parameters of the ideology, however, remain fragile and elusive. As an ideology,