

## The Neoliberal State

The role of the state in neoliberal theory is reasonably easy to define. The practice of neoliberalization has, however, evolved in such a way as to depart significantly from the template that theory provides. The somewhat chaotic evolution and uneven geographical development of state institutions, powers, and functions over the last thirty years suggests, furthermore, that the neoliberal state may be an unstable and contradictory political form.

### The Neoliberal State in Theory

According to theory, the neoliberal state should favour strong individual private property rights, the rule of law, and the institutions of freely functioning markets and free trade.<sup>1</sup> These are the institutional arrangements considered essential to guarantee individual freedoms. The legal framework is that of freely negotiated contractual obligations between juridical individuals in the marketplace. The sanctity of contracts and the individual right to freedom of action, expression, and choice must be protected. The state must therefore use its monopoly of the means of violence to preserve these freedoms at all costs. By extension, the freedom of businesses and corporations (legally regarded as individuals) to operate within this institutional framework of free markets and free trade is regarded as a fundamental good. Private enterprise and entrepreneurial initiative are seen as the keys to innovation and wealth creation. Intellectual property rights are protected (for example through patents) so as to encourage technological changes. Continuous increases in productivity should then deliver higher living standards to everyone. Under the assumption that 'a rising tide lifts all boats', or of 'trickle down', neoliberal theory

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holds that the elimination of poverty (both domestically and worldwide) can best be secured through free markets and free trade.

Neoliberals are particularly assiduous in seeking the privatization of assets. The absence of clear private property rights—as in many developing countries—is seen as one of the greatest of all institutional barriers to economic development and the improvement of human welfare. Enclosure and the assignment of private property rights is considered the best way to protect against the so-called 'tragedy of the commons' (the tendency for individuals to irresponsibly super-exploit common property resources such as land and water). Sectors formerly run or regulated by the state must be turned over to the private sphere and be deregulated (freed from any state interference). Competition—between individuals, between firms, between territorial entities (cities, regions, nations, regional groupings)—is held to be a primary virtue. The ground-rules for market competition must be properly observed, of course. In situations where such rules are not clearly laid out or where property rights are hard to define, the state must use its power to impose or invent market systems (such as trading in pollution rights). Privatization and deregulation combined with competition, it is claimed, eliminate bureaucratic red tape, increase efficiency and productivity, improve quality, and reduce costs, both directly to the consumer through cheaper commodities and services and indirectly through reduction of the tax burden. The neoliberal state should persistently seek out internal reorganizations and new institutional arrangements that improve its competitive position as an entity *vis-à-vis* other states in the global market.

While personal and individual freedom in the marketplace is guaranteed, each individual is held responsible and accountable for his or her own actions and well-being. This principle extends into the realms of welfare, education, health care, and even pensions (social security has been privatized in Chile and Slovakia, and proposals exist to do the same in the US). Individual success or failure are interpreted in terms of entrepreneurial virtues or personal failings (such as not investing significantly enough in one's own human capital through education) rather than being

attributed to any systemic property (such as the class exclusions usually attributed to capitalism).

The free mobility of capital between sectors, regions, and countries is regarded as crucial. All barriers to that free movement (such as tariffs, punitive taxation arrangements, planning and environmental controls, or other locational impediments) have to be removed, except in those areas crucial to 'the national interest', however that is defined. State sovereignty over commodity and capital movements is willingly surrendered to the global market. International competition is seen as healthy since it improves efficiency and productivity, lowers prices, and thereby controls inflationary tendencies. States should therefore collectively seek and negotiate the reduction of barriers to movement of capital across borders and the opening of markets (for both commodities and capital) to global exchange. Whether or not this applies to labour as a commodity is, however, controversial. To the degree that all states must collaborate to reduce barriers to exchange, so co-ordinating structures such as the group of advanced capitalist nations (the US, Britain, France, Germany, Italy, Canada, and Japan) known as the G7 (now the G8 with the addition of Russia) must arise. International agreements between states guaranteeing the rule of law and freedoms of trade, such as those now incorporated in the World Trade Organization agreements, are critical to the advancement of the neoliberal project on the global stage.

Neoliberal theorists are, however, profoundly suspicious of democracy. Governance by majority rule is seen as a potential threat to individual rights and constitutional liberties. Democracy is viewed as a luxury, only possible under conditions of relative affluence coupled with a strong middle-class presence to guarantee political stability. Neoliberals therefore tend to favour governance by experts and elites. A strong preference exists for government by executive order and by judicial decision rather than democratic and parliamentary decision-making. Neoliberals prefer to insulate key institutions, such as the central bank, from democratic pressures. Given that neoliberal theory centres on the rule of law and a strict interpretation of constitutionality, it follows that conflict and opposition must be mediated through the courts. Solutions and

remedies to any problems have to be sought by individuals through the legal system.

### Tensions and Contradictions

There are some shadowy areas as well as points of conflict within the general theory of the neoliberal state. First, there is the problem of how to interpret monopoly power. Competition often results in monopoly or oligopoly, as stronger firms drive out weaker. Most neoliberal theorists consider this unproblematic (it should, they say, maximize efficiency) provided there are no substantial barriers to the entry of competitors (a condition often hard to realize and which the state may therefore have to nurture). The case of so-called 'natural monopolies' is more difficult. It makes no sense to have multiple competing electrical power grids, gas pipelines, water and sewage systems, or rail links between Washington and Boston. State regulation of provision, access, and pricing seems unavoidable in such domains. While partial deregulation may be possible (permitting competing producers to feed electricity into the same grid or run trains on the same tracks, for example) the possibilities for profiteering and abuse, as the California power crisis of 2002 abundantly showed, or for deadly muddle and confusion, as the British rail situation has proven, are very real.

The second major arena of controversy concerns market failure. This arises when individuals and firms avoid paying the full costs attributable to them by shedding their liabilities outside the market (the liabilities are, in technical parlance, 'externalized'). The classic case is that of pollution, where individuals and firms avoid costs by dumping noxious wastes free of charge in the environment. Productive ecosystems may be degraded or destroyed as a result. Exposure to dangerous substances or physical dangers in the workplace may affect human health and even deplete the pool of healthy labourers in the workforce. While neoliberals admit the problem and some concede the case for limited state intervention, others argue for inaction because the cure will almost certainly be worse than the disease. Most would agree, however, that if there are to be interventions these should work through market

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mechanisms (via tax impositions or incentives, trading rights of pollutants, and the like). Competitive failures are approached in a similar fashion. Rising transaction costs can be incurred as contractual and subcontractual relations proliferate. The vast apparatus of currency speculation, to take just one example, appears more and more costly at the same time as it becomes more and more fundamental to capturing speculative profits. Other problems arise when, say, all competing hospitals in a region buy the same sophisticated equipment that remains underutilized, thus driving up aggregate costs. The case here for cost containment through state planning, regulation, and forced co-ordination is strong, but again neoliberals are deeply suspicious of such interventions.

All agents acting in the market are generally presumed to have access to the same information. There are presumed to be no asymmetries of power or of information that interfere with the capacity of individuals to make rational economic decisions in their own interests. This condition is rarely, if ever, approximated in practice, and there are significant consequences.<sup>2</sup> Better informed and more powerful players have an advantage that can all too easily be parlayed into procuring even better information and greater relative power. The establishment of intellectual property rights (patents), furthermore, encourages 'rent seeking'. Those who hold the patent rights use their monopoly power to set monopoly prices and to prevent technology transfers except at a very high cost. Asymmetric power relations tend, therefore, to increase rather than diminish over time unless the state steps in to counteract them. The neoliberal presumption of perfect information and a level playing field for competition appears as either innocently utopian or a deliberate obfuscation of processes that will lead to the concentration of wealth and, therefore, the restoration of class power.

The neoliberal theory of technological change relies upon the coercive powers of competition to drive the search for new products, new production methods, and new organizational forms. This drive becomes so deeply embedded in entrepreneurial common sense, however, that it becomes a fetish belief: that there is a technological fix for each and every problem. To the degree that this takes hold not only within corporations but also within the state

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apparatus (in the military in particular), it produces powerful independent trends of technological change that can become destabilizing, if not counterproductive. Technological developments can run amok as sectors dedicated solely to technological innovation create new products and new ways of doing things that as yet have no market (new pharmaceutical products are produced, for which new illnesses are then invented). Talented interlopers can, furthermore, mobilize technological innovations to undermine dominant social relations and institutions; they can, through their activities, even reshape common sense to their own pecuniary advantage. There is an inner connection, therefore, between technological dynamism, instability, dissolution of social solidarities, environmental degradation, deindustrialization, rapid shifts in time-space relations, speculative bubbles, and the general tendency towards crisis formation within capitalism.<sup>3</sup>

There are, finally, some fundamental political problems within neoliberalism that need to be addressed. A contradiction arises between a seductive but alienating possessive individualism on the one hand and the desire for a meaningful collective life on the other. While individuals are supposedly free to choose, they are not supposed to choose to construct strong collective institutions (such as trade unions) as opposed to weak voluntary associations (like charitable organizations). They most certainly should not choose to associate to create political parties with the aim of forcing the state to intervene in or eliminate the market. To guard against their greatest fears—fascism, communism, socialism, authoritarian populism, and even majority rule—the neoliberals have to put strong limits on democratic governance, relying instead upon undemocratic and unaccountable institutions (such as the Federal Reserve or the IMF) to make key decisions. This creates the paradox of intense state interventions and government by elites and 'experts' in a world where the state is supposed not to be interventionist. One is reminded of Francis Bacon's utopian tale *New Atlantis* (first published in 1626) where a Council of Wise Elders mandates all key decisions. Faced with social movements that seek collective interventions, therefore, the neoliberal state is itself forced to intervene, sometimes repressively, thus denying the very freedoms it is supposed to uphold. In this situation, however, it can

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marshal one secret weapon: international competition and globalization can be used to discipline movements opposed to the neoliberal agenda within individual states. If that fails, then the state must resort to persuasion, propaganda or, when necessary, raw force and police power to suppress opposition to neoliberalism. This was precisely Polanyi's fear: that the liberal (and by extension the neoliberal) utopian project could only ultimately be sustained by resort to authoritarianism. The freedom of the masses would be restricted in favour of the freedoms of the few.

## The Neoliberal State in Practice

The general character of the state in the era of neoliberalization is hard to describe for two particular reasons. First, systematic divergences from the template of neoliberal theory quickly become apparent, not all of which can be attributed to the internal contradictions already outlined. Secondly, the evolutionary dynamic of neoliberalization has been such as to force adaptations that have varied greatly from place to place as well as over time. Any attempt to extract some composite picture of a typical neoliberal state from this unstable and volatile historical geography would seem to be a fool's errand. Nevertheless, I think it useful to sketch in some general threads of argument that keep the concept of a distinctively neoliberal state in play.

There are two arenas in particular where the drive to restore class power twists and in some respects even reverses neoliberal theory in its practice. The first of these arises out of the need to create a 'good business or investment climate' for capitalistic endeavours. While there are some conditions, such as political stability or full respect for the law and even-handedness in its application, that might plausibly be considered 'class neutral', there are others that are manifestly biased. The biases arise in particular out of the treatment of labour and the environment as mere commodities. In the event of a conflict, the typical neoliberal state will tend to side with a good business climate as opposed to either the collective rights (and quality of life) of labour or the capacity of the environment to regenerate itself. The second arena of bias arises because, in the event of a conflict, neoliberal states typically favour

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the integrity of the financial system and the solvency of financial institutions over the well-being of the population or environmental quality.

These systematic biases are not always easy to discern within the welter of divergent and often wildly disparate state practices. Pragmatic and opportunistic considerations play an important part. President Bush advocates free markets and free trade but imposed steel tariffs in order to bolster his electoral chances (successfully, it turned out) in Ohio. Quotas are arbitrarily placed on foreign imports to assuage domestic discontents. Europeans protect agriculture while insisting upon free trade in everything else for social, political, and even aesthetic reasons. Special interventions of the state favour particular business interests (for example armaments deals), and credits are arbitrarily extended from one state to another in order to gain political access and influence in geopolitically sensitive regions (such as the Middle East). For all these sorts of reasons it would be surprising indeed to find even the most fundamentalist of neoliberal states cleaving to neoliberal orthodoxy all of the time.

In other instances we may reasonably attribute divergences between theory and practice to frictional problems of transition reflecting the different state forms that existed prior to the neoliberal turn. The conditions that prevailed in central and eastern Europe after the collapse of communism were very special, for example. The speed with which privatization occurred under the 'shock therapy' that was visited upon those countries in the 1990s created enormous stresses that reverberate to this day. Social democratic states (such as those in Scandinavia or Britain in the immediate post-war period) had long taken key sectors of the economy such as health care, education, and even housing out of the market on the grounds that access to basic human needs should not be mediated through market forces and access limited by ability to pay. While Margaret Thatcher managed to change all that, the Swedes resisted far longer even in the face of strong attempts by capitalist class interests to take the neoliberal road. Developmental states (such as Singapore and several other Asian countries), for quite different reasons, rely on the public sector and state planning in tight association with domestic and corporate (often

foreign and multinational) capital to promote capital accumulation and economic growth.<sup>4</sup> Developmental states typically pay considerable attention to social as well as physical infrastructures. This means far more egalitarian policies with respect to, for example, access to educational opportunities and health care. State investment in education is viewed, for example, as a crucial prerequisite to gaining competitive advantage in world trade. Developmental states become consistent with neoliberalization to the degree that they facilitate competition between firms, corporations, and territorial entities and accept the rules of free trade and rely on open export markets. But they are actively interventionist in creating the infrastructures for a good business climate. Neoliberalization therefore opens up possibilities for developmental states to enhance their position in international competition by developing new structures of state intervention (such as support for research and development). But, by the same token, neoliberalization creates conditions for class formation, and as that class power strengthens so the tendency arises (for example in contemporary Korea) for that class to seek to liberate itself from reliance upon state power and to reorient state power along neoliberal lines.

As new institutional arrangements come to define the rules of world trade—for example, the opening of capital markets is now a condition of membership of the IMF and the WTO—developmental states find themselves increasingly drawn into the neoliberal fold. One of the main effects of the Asian crisis of 1997–8, for example, was to bring developmental states more in line with standard neoliberal practices. And as we saw in the British case, it is hard to maintain a neoliberal posture externally (for example to facilitate the operations of finance capital) without accepting a modicum of neoliberalization on the inside (South Korea has struggled with exactly this sort of stress in recent times). But developmental states are by no means convinced that the neoliberal path is the right one, particularly since those states (like Taiwan and China) that had not freed up their capital markets suffered far less in the financial crisis of 1997–8 than those that had.<sup>5</sup>

Contemporary practices with respect to finance capital and financial institutions are perhaps the most difficult of all to recon-

cile with neoliberal orthodoxy. Neoliberal states typically facilitate the diffusion of influence of financial institutions through deregulation, but then they also all too often guarantee the integrity and solvency of financial institutions at no matter what cost. This commitment in part derives (legitimately in some versions of neoliberal theory) from reliance upon monetarism as the basis of state policy—the integrity and soundness of money is a central pillar of that policy. But this paradoxically means that the neoliberal state cannot tolerate any massive financial defaults even when it is the financial institutions that have made the bad decisions. The state has to step in and replace ‘bad’ money with its own supposedly ‘good’ money—which explains the pressure on central bankers to maintain confidence in the soundness of state money. State power has often been used to bail out companies or avert financial failures, such as the US savings and loans crisis of 1987–8, which cost US taxpayers an estimated \$150 billion, or the collapse of the hedge fund Long Term Capital Management in 1997–8, which cost \$3.5 billion.

Internationally, the core neoliberal states gave the IMF and the World Bank full authority in 1982 to negotiate debt relief, which meant in effect to protect the world’s main financial institutions from the threat of default. The IMF in effect covers, to the best of its ability, exposures to risk and uncertainty in international financial markets. This practice is hard to justify according to neoliberal theory, since investors should in principle be responsible for their own mistakes. More fundamentalist-minded neoliberals therefore believe that the IMF should be abolished. This option was seriously considered during the early years of the Reagan administration, and Congressional Republicans raised it again in 1998. James Baker, Reagan’s Secretary of the Treasury, breathed new life into the institution when he found himself faced with the potential bankruptcy of Mexico and serious losses for the main New York City investment banks that held Mexican debt in 1982. He used the IMF to impose structural adjustment on Mexico and protect the New York bankers from default. This practice of prioritizing the needs of the banks and financial institutions while diminishing the standard of living of the debtor country had already been pioneered during the New York City debt crisis. In the international

context this meant extracting surpluses from impoverished Third World populations in order to pay off the international bankers. 'What a peculiar world', Stiglitz quizzically remarks, 'in which the poor countries are in effect subsidizing the richest.' Even Chile—the exemplar of 'pure' neoliberal practices after 1975—got hit in this way in 1982–3, with the result that gross domestic product fell by nearly 14 per cent and unemployment shot up to 20 per cent in one year. The inference that 'pure' neoliberalization does not work failed to be registered theoretically, although the pragmatic adaptations that followed in Chile (as well as in Britain after 1983) opened up a field of compromises that widened the gap even further between theory and practice.<sup>6</sup>

The extraction of tribute via financial mechanisms is an old imperial practice. It has proven very helpful to the restoration of class power, particularly in the world's main financial centres, and it does not always need a structural adjustment crisis to work. When entrepreneurs in developing countries borrow money from abroad, for example, the requirement that their own state should have sufficient foreign exchange reserves to cover their borrowings translates into the state having to invest in, say, US Treasury bonds. The difference between the interest rate on the money borrowed (for example 12 per cent) and the money deposited as collateral in US Treasuries in Washington (for example 4 per cent) yields a strong net financial flow to the imperial centre at the expense of the developing country.

This tendency on the part of the core states like the US to protect financial interests and to stand by as they suck in surpluses from elsewhere both promotes and reflects the consolidation of upper-class power within those states around processes of financialization. But the habit of intervening in the marketplace and bailing out financial institutions when they get into trouble cannot be reconciled with neoliberal theory. Reckless investments should be punished by losses to the lender, but the state makes lenders largely immune to losses. Borrowers have to pay up instead, no matter what the social cost. Neoliberal theory should warn 'Lender, beware', but the practice is 'Borrower, beware'.

There are limits to the capacity to squeeze out surpluses from developing countries' economies. Strapped by austerity measures

that lock them into chronic economic stagnation, the prospect of their repaying debts has frequently receded into some distant future. Under these conditions, some measured losses may appear an attractive option. This happened under the Brady Plan of 1989.<sup>7</sup> Financial institutions agreed to write down 35 per cent of their outstanding debt as a loss in exchange for discounted bonds (backed by the IMF and the US Treasury), guaranteeing repayment of the rest (in other words creditors were guaranteed repayment of debts at the rate of 65 cents on the dollar). By 1994 some eighteen countries (including Mexico, Brazil, Argentina, Venezuela, and Uruguay) had agreed to deals that forgave them some \$60 billion in debt. The hope, of course, was that this debt relief would spark an economic recovery that would permit the rest of the debt to be paid off in a timely way. The trouble was that the IMF also saw to it that all the countries that took advantage of this modicum of debt forgiveness (which many regarded as minimal in relation to what the banks could afford) were also required to swallow the poison pill of neoliberal institutional reforms. The peso crisis in Mexico in 1995, the Brazilian crisis of 1998, and the total collapse of the Argentine economy in 2001 were predictable results.

This brings us, finally, to the problematic issue of the neoliberal state's approach to labour markets. Internally, the neoliberal state is necessarily hostile to all forms of social solidarity that put restraints on capital accumulation. Independent trade unions or other social movements (such as the municipal socialism of the Greater London Council type), which acquired considerable power under embedded liberalism, have therefore to be disciplined, if not destroyed, and this in the name of the supposedly sacrosanct individual liberty of the isolated labourer. 'Flexibility' becomes the watchword with respect to labour markets. It is hard to argue that increased flexibility is all bad, particularly in the face of highly restrictive and sclerotic union practices. There are, therefore, reformists of a left persuasion who argue strongly for 'flexible specialization' as a way forward.<sup>8</sup> While some individual labourers may undoubtedly benefit from this, the asymmetries of information and of power that arise, coupled with the lack of easy and free mobility of labour (particularly across state borders), put labour at

a disadvantage. Flexible specialization can be seized on by capital as a handy way to procure more flexible means of accumulation. The two terms—flexible specialization and flexible accumulation—have quite different connotations.<sup>9</sup> The general outcome is lower wages, increasing job insecurity, and in many instances loss of benefits and of job protections. Such trends are readily discernible in all states that have taken the neoliberal road. Given the violent assault on all forms of labour organization and labour rights and heavy reliance upon massive but largely disorganized labour reserves in countries such as China, Indonesia, India, Mexico, and Bangladesh, it would seem that labour control and maintenance of a high rate of labour exploitation have been central to neoliberalization all along. The restoration or formation of class power occurs, as always, at the expense of labour.

It is precisely in such a context of diminished personal resources derived from the job market that the neoliberal determination to transfer all responsibility for well-being back to the individual has doubly deleterious effects. As the state withdraws from welfare provision and diminishes its role in arenas such as health care, public education, and social services, which were once so fundamental to embedded liberalism, it leaves larger and larger segments of the population exposed to impoverishment.<sup>10</sup> The social safety net is reduced to a bare minimum in favour of a system that emphasizes personal responsibility. Personal failure is generally attributed to personal failings, and the victim is all too often blamed.

Behind these major shifts in social policy lie important structural changes in the nature of governance. Given the neoliberal suspicion of democracy, a way has to be found to integrate state decision-making into the dynamics of capital accumulation and the networks of class power that are in the process of restoration, or, as in China and Russia, in formation. Neoliberalization has entailed, for example, increasing reliance on public-private partnerships (this was one of the strong ideas pushed by Margaret Thatcher as she set up 'quasi-governmental institutions' such as urban development corporations to pursue economic development). Businesses and corporations not only collaborate intimately with state actors but even acquire a strong role in writing legislation,

determining public policies, and setting regulatory frameworks (which are mainly advantageous to themselves). Patterns of negotiation arise that incorporate business and sometimes professional interests into governance through close and sometimes secretive consultation. The most blatant example of this was the persistent refusal of Vice-President Cheney to release the names of the consultative group that formulated the Bush administration's energy policy document of 2002; it almost certainly included Kenneth Lay, the head of Enron—a company accused of profiteering by deliberately fostering an energy crisis in California and which then collapsed in the midst of a huge accounting scandal. The shift from government (state power on its own) to governance (a broader configuration of state and key elements in civil society) has therefore been marked under neoliberalism.<sup>11</sup> In this respect the practices of the neoliberal and developmental state broadly converge.

The state typically produces legislation and regulatory frameworks that advantage corporations, and in some instances specific interests such as energy, pharmaceuticals, agribusiness, etc. In many of the instances of public-private partnerships, particularly at the municipal level, the state assumes much of the risk while the private sector takes most of the profits. If necessary, furthermore, the neoliberal state will resort to coercive legislation and policing tactics (anti-picketing rules, for example) to disperse or repress collective forms of opposition to corporate power. Forms of surveillance and policing multiply: in the US, incarceration became a key state strategy to deal with problems arising among discarded workers and marginalized populations. The coercive arm of the state is augmented to protect corporate interests and, if necessary, to repress dissent. None of this seems consistent with neoliberal theory. The neoliberal fear that special-interest groups would pervert and subvert the state is nowhere better realized than in Washington, where armies of corporate lobbyists (many of whom have taken advantage of the 'revolving door' between state employment and far more lucrative employment by the corporations) effectively dictate legislation to match their special interests. While some states continue to respect the traditional independence of the Civil Service, this condition has everywhere been under threat in the course of neoliberalization. The boundary between the state and

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corporate power has become more and more porous. What remains of representative democracy is overwhelmed, if not totally though legally corrupted by money power.

Since access to the judiciary is nominally egalitarian but in practice extremely expensive (be it an individual suing over negligent practices or a country suing the US for violation of WTO rules—a procedure that can cost up to a million dollars, a sum equivalent to the annual budget of some small, impoverished countries), the outcomes are often strongly biased towards those with money power. Class bias in decision-making within the judiciary is, in any case, pervasive if not assured.<sup>12</sup> It should not be surprising that the primary collective means of action under neoliberalism are then defined and articulated through non-elected (and in many instances elite-led) advocacy groups for various kinds of rights. In some instances, such as consumer protections, civil rights, or the rights of handicapped persons, substantive gains have been achieved by such means. Non-governmental and grassroots organizations (NGOs and GROs) have also grown and proliferated remarkably under neoliberalism, giving rise to the belief that opposition mobilized outside the state apparatus and within some separate entity called 'civil society' is the powerhouse of oppositional politics and social transformation.<sup>13</sup> The period in which the neoliberal state has become hegemonic has also been the period in which the concept of civil society—often cast as an entity in opposition to state power—has become central to the formulation of oppositional politics. The Gramscian idea of the state as a unity of political and civil society gives way to the idea of civil society as a centre of opposition, if not an alternative, to the state.

From this account we can clearly see that neoliberalism does not make the state or particular institutions of the state (such as the courts and police functions) irrelevant, as some commentators on both the right and the left have argued.<sup>14</sup> There has, however, been a radical reconfiguration of state institutions and practices (particularly with respect to the balance between coercion and consent, between the powers of capital and of popular movements, and between executive and judicial power, on the one hand, and powers of representative democracy on the other).

But all is not well with the neoliberal state, and it is for this

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reason that it appears to be either a transitional or an unstable political form. At the heart of the problem lies a burgeoning disparity between the declared public aims of neoliberalism—the well-being of all—and its actual consequences—the restoration of class power. But beyond this there lies a whole series of more specific contradictions that need to be highlighted.

1. On the one hand the neoliberal state is expected to take a back seat and simply set the stage for market functions, but on the other it is supposed to be activist in creating a good business climate and to behave as a competitive entity in global politics. In its latter role it has to work as a collective corporation, and this poses the problem of how to ensure citizen loyalty. Nationalism is an obvious answer, but this is profoundly antagonistic to the neoliberal agenda. This was Margaret Thatcher's dilemma, for it was only through playing the nationalism card in the Falklands/Malvinas war and, even more significantly, in the campaign against economic integration with Europe, that she could win re-election and promote further neoliberal reforms internally. Again and again, be it within the European Union, in Mercosur (where Brazilian and Argentine nationalisms inhibit integration), in NAFTA, or in ASEAN, the nationalism required for the state to function effectively as a corporate and competitive entity in the world market gets in the way of market freedoms more generally.
2. Authoritarianism in market enforcement sits uneasily with ideals of individual freedoms. The more neoliberalism veers towards the former, the harder it becomes to maintain its legitimacy with respect to the latter and the more it has to reveal its anti-democratic colours. This contradiction is paralleled by a growing lack of symmetry in the power relation between corporations and individuals such as you and me. If 'corporate power steals your personal freedom' then the promise of neoliberalism comes to nothing.<sup>15</sup> This applies to individuals in the workplace as well as in the living space. It is one thing to maintain, for example, that my health-care status is my personal choice and responsibility, but quite another when the only way I can satisfy my needs in the market is through paying exorbitant



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premiums to inefficient, gargantuan, highly bureaucratized but also highly profitable insurance companies. When these companies even have the power to define new categories of illness to match new drugs coming on the market then something is clearly wrong.<sup>16</sup> Under such circumstances, maintaining legitimacy and consent, as we saw in Chapter 2, becomes an even more difficult balancing act that can easily topple over when things start to go wrong.

3. While it may be crucial to preserve the integrity of the financial system, the irresponsible and self-aggrandizing individualism of operators within it produces speculative volatility, financial scandals, and chronic instability. The Wall Street and accounting scandals of recent years have undermined confidence and posed regulatory authorities with serious problems of how and when to intervene, internationally as well as nationally. International free trade requires some global rules of the game, and that calls for the need for some kind of global governance (for example by the WTO). Deregulation of the financial system facilitates behaviours that call for re-regulation if crisis is to be avoided.<sup>17</sup>
4. While the virtues of competition are placed up front, the reality is the increasing consolidation of oligopolistic, monopoly, and transnational power within a few centralized multinational corporations: the world of soft-drinks competition is reduced to Coca Cola versus Pepsi, the energy industry is reduced to five huge transnational corporations, and a few media magnates control most of the flow of news, much of which then becomes pure propaganda.
5. At the popular level, the drive towards market freedoms and the commodification of everything can all too easily run amok and produce social incoherence. The destruction of forms of social solidarity and even, as Thatcher suggested, of the very idea of society itself, leaves a gaping hole in the social order. It then becomes peculiarly difficult to combat anomie and control the resultant anti-social behaviours such as criminality, pornography, or the virtual enslavement of others. The reduction of 'freedom' to 'freedom of enterprise' unleashes all those 'negative freedoms' that Polanyi saw as inextricably tied in with the

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positive freedoms. The inevitable response is to reconstruct social solidarities, albeit along different lines—hence the revival of interest in religion and morality, in new forms of associationism (around questions of rights and citizenship, for example) and even the revival of older political forms (fascism, nationalism, localism, and the like). Neoliberalism in its pure form has always threatened to conjure up its own nemesis in varieties of authoritarian populism and nationalism. As Schwab and Smadja, organizers of the once purely celebratory neoliberal annual jamboree at Davos, warned as early as 1996:

Economic globalization has entered a new phase. A mounting backlash against its effects, especially in the industrial democracies, is threatening a disruptive impact on economic activity and social stability in many countries. The mood in these democracies is one of helplessness and anxiety, which helps explain the rise of a new brand of populist politicians. This can easily turn into revolt.<sup>18</sup>

## The Neoconservative Answer

If the neoliberal state is inherently unstable, then what might replace it? In the US there are signs of a distinctively neoconservative answer to this question. Reflecting on the recent history of China, Wang also suggests that, theoretically,

such discursive narratives as 'neo-Authoritarianism', 'neoconservatism', 'classical liberalism', market extremism, national modernization . . . all had close relationships of one sort or another with the constitution of neoliberalism. The successive displacement of these terms for one another (or even the contradictions among them) demonstrate the shifts in the structure of power in both contemporary China and the contemporary world at large.<sup>19</sup>

Whether or not this portends a more general reconfiguration of governance structures worldwide remains to be seen. It is, however, interesting to note how neoliberalization in authoritarian states such as China and Singapore seems to be converging with the increasing authoritarianism evident in neoliberal states such as the US and Britain. Consider, then, how the neoconservative

answer to the inherent instability of the neoliberal state has evolved in the US.

Like the neoliberals that preceded them, the 'neocons' had long been nurturing their particular views on the social order, in universities (Leo Strauss at the University of Chicago being particularly influential) and well-funded think-tanks, and through influential publications (such as *Commentary*).<sup>20</sup> US neoconservatives favour corporate power, private enterprise, and the restoration of class power. Neoconservatism is therefore entirely consistent with the neoliberal agenda of elite governance, mistrust of democracy, and the maintenance of market freedoms. But it veers away from the principles of pure neoliberalism and has reshaped neoliberal practices in two fundamental respects: first, in its concern for order as an answer to the chaos of individual interests, and second, in its concern for an overweening morality as the necessary social glue to keep the body politic secure in the face of external and internal dangers.

In its concern for order, neoconservatism appears as a mere stripping away of the veil of authoritarianism in which neoliberalism sought to envelop itself. But it also proposes distinctive answers to one of the central contradictions of neoliberalism. If 'there is no such thing as society but only individuals' as Thatcher initially put it, then the chaos of individual interests can easily end up prevailing over order. The anarchy of the market, of competition, and of unbridled individualism (individual hopes, desires, anxieties, and fears; choices of lifestyle and of sexual habits and orientation; modes of self-expression and behaviours towards others) generates a situation that becomes increasingly ungovernable. It may even lead to a breakdown of all bonds of solidarity and a condition verging on social anarchy and nihilism.

In the face of this, some degree of coercion appears necessary to restore order. The neoconservatives therefore emphasize militarization as an antidote to the chaos of individual interests. For this reason, they are far more likely to highlight threats, real or imagined, both at home and abroad, to the integrity and stability of the nation. In the US this entails triggering what Hofstadter refers to as 'the paranoid style of American politics' in which the nation is depicted as besieged and threatened by enemies from within and

without.<sup>21</sup> This style of politics has had a long history in the US. Neoconservatism is not new, and since the Second World War it has found a particular home in a powerful military-industrial complex that has a vested interest in permanent militarization. But the end of the Cold War posed the question of where the threat to US security was coming from. Radical Islam and China emerged as the top two candidates externally, and dissident internal movements (the Branch Davidians incinerated at Waco, militia movements that gave succour to the Oklahoma bombing, the riots that followed the beating of Rodney King in Los Angeles, and finally the disorders that broke out in Seattle in 1999) had to be targeted internally by stronger surveillance and policing. The very real emergence of the threat from radical Islam during the 1990s that culminated in the events of 9/11 finally came to the fore as the central focus for the declaration of a permanent 'war on terror' that demanded militarization both at home and abroad to guarantee the security of the nation. While, plainly, some sort of police/military response to the threat revealed by the two attacks on the World Trade Center in New York was called for, the arrival in power of neoconservatives guaranteed an overarching, and in the judgement of many an overreaching, response in the turn to extensive militarization at home and abroad.<sup>22</sup>

Neoconservatism has long hovered in the wings as a movement against the moral permissiveness that individualism typically promotes. It therefore seeks to restore a sense of moral purpose, some higher-order values that will form the stable centre of the body politic. This possibility is in a way presaged within the framework of neoliberal theories which, 'by questioning the very political foundation of interventionist models of economic management . . . have brought issues of morality, justice and power—although in their own peculiar ways—back into economics'.<sup>23</sup> What the neoconservatives do is to change the 'peculiar ways' in which such questions enter into debate. Their aim is to counteract the dissolving effect of the chaos of individual interests that neoliberalism typically produces. They in no way depart from the neoliberal agenda of a construction or restoration of a dominant class power. But they seek legitimacy for that power, as well as social control through construction of a climate of consent around a coherent set

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of moral values. This immediately poses the question of which moral values should prevail. It would, for example, be entirely feasible to appeal to the liberal system of human rights since, after all, the aim of human rights activism, as Mary Kaldor argues, 'is not merely intervention to protect human rights but the creation of a moral community'.<sup>24</sup> In the US, doctrines of 'exceptionalism' and the long history of civil rights activism have certainly generated moral movements around issues such as civil rights, global hunger, and philanthropic engagement, as well as missionary zeal.

But the moral values that have now become central to the neo-conservatives can best be understood as products of the particular coalition that was built in the 1970s, between elite class and business interests intent on restoring their class power, on the one hand, and an electoral base among the 'moral majority' of the disaffected white working class on the other. The moral values centred on cultural nationalism, moral righteousness, Christianity (of a certain evangelical sort), family values, and right-to-life issues, and on antagonism to the new social movements such as feminism, gay rights, affirmative action, and environmentalism. While this alliance was mainly tactical under Reagan, the domestic disorder of the Clinton years forced the moral values argument to the top of the agenda in the Republicanism of Bush the younger. It now forms the core of the moral agenda of the neoconservative movement.<sup>25</sup>

But it would be wrong to see this neoconservative turn as exceptional or peculiar to the US, even though there are special elements at work there that may not be present elsewhere. Within the US this assertion of moral values relies heavily on appeals to ideals of nation, religion, history, cultural tradition, and the like, and these ideals are by no means confined to the US. This brings one of the more troubling aspects of neoliberalization more sharply back into focus: the curious relationship between state and nation. In principle, neoliberal theory does not look with favour on the *nation* even as it supports the idea of a strong state. The umbilical cord that tied together state and nation under embedded liberalism had to be cut if neoliberalism was to flourish. This was particularly true for states, such as Mexico and France, that took a corporatist form. The Partido Revolucionario Institucional in

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Mexico had long ruled on the theme of unity of state and nation, but that increasingly fell apart, even turning much of the nation against the state, as a result of neoliberal reforms during the 1990s. Nationalism has, of course, been a long-standing feature of the global economy and it would have been strange indeed if had sunk without trace as a result of neoliberal reforms; in fact it has revived to some degree in opposition to what neoliberalization has been about. The rise of right-wing fascist parties expressive of strong anti-immigrant sentiments in Europe is a case in point. Even more distressing was the ethnic nationalism that arose in the wake of Indonesia's economic collapse, which resulted in a brutal assault upon the Chinese minority.

But, as we have seen, the neoliberal state needs nationalism of a certain sort to survive. Forced to operate as a competitive agent in the world market and seeking to establish the best possible business climate, it mobilizes nationalism in its effort to succeed. Competition produces ephemeral winners and losers in the global struggle for position, and this in itself can be a source of national pride or of national soul-searching. Nationalism around sports competitions between nations is a sign of this. In China, the appeal to nationalist sentiment in the struggle to procure the state's position (if not hegemony) in the global economy is overt (as is the intensity of its training programme for athletes for the Beijing Olympics). Nationalist sentiment is equally rife in South Korea and Japan, and in both instances this can be seen as an antidote to the dissolution of former bonds of social solidarity under the impact of neoliberalism. Strong currents of cultural nationalism are stirring within the old nation-states (such as France) that now constitute the European Union. Religion and cultural nationalism provided the moral heft behind the Hindu Nationalist Party's success in enhancing neoliberal practices in India in recent times. The invocation of moral values in the Iranian revolution and the subsequent turn to authoritarianism has not led to total abandonment of market-based practices there, even though the revolution was aimed at the decadence of unbridled market individualism. A similar impulse lies behind the long-standing sense of moral superiority that pervades countries such as Singapore and Japan in relationship to what they see as the 'decadent' individualism and the shapeless

multiculturalism of the US. The case of Singapore is particularly instructive. It has combined neoliberalism in the marketplace with draconian coercive and authoritarian state power, while invoking moral solidarities based on the nationalist ideals of a beleaguered island state (after its ejection from the Malaysian federation), Confucian values, and, most recently, a distinctive form of the cosmopolitan ethic suited to its current position in the world of international trade.<sup>26</sup> The British case is particularly interesting. Margaret Thatcher, through the Falklands/Malvinas war and in her antagonistic posture towards Europe, invoked nationalist sentiment in support of her neoliberal project, though it was the idea of England and St George, rather than the United Kingdom, that animated her vision—which turned Scotland and Wales hostile.

Clearly, while there are dangers in the neoliberal dalliance with nationalism of a certain sort, the fierce neoconservative embrace of a national moral purpose is far more threatening. The picture of many states, each prepared to resort to draconian coercive practices while each espousing its own distinctive and supposedly superior moral values, competing on the world stage is not reassuring. What seems like an answer to the contradictions of neoliberalism can all too easily turn into a problem. The spread of neoconservative, if not outright authoritarian, power (of the sort Vladimir Putin exercises in Russia and the Communist Party exercises in China), albeit grounded very differently in different social formations, highlights the dangers of descent into competing and perhaps even warring nationalisms. If there is an inevitability at work, then it arises more out of the neoconservative turn than out of eternal truths attaching to supposed national differences. To avoid catastrophic outcomes therefore requires rejection of the neoconservative solution to the contradictions of neoliberalism. This presumes, however, that there is some alternative: and that question will be addressed later.

## Uneven Geographical Developments

### The Moving Map of Neoliberalization

A moving map of the progress of neoliberalization on the world stage since 1970 would be hard to construct. To begin with, most states that have taken the neoliberal turn have done so only partially—the introduction of greater flexibility into labour markets here, a deregulation of financial operations and embrace of monetarism there, a move towards privatization of state-owned sectors somewhere else. Wholesale changes in the wake of crises (such as the collapse of the Soviet Union) can be followed by slow reversals as the unpalatable aspects of neoliberalism become more evident. And in the struggle to restore or establish a distinctive upper-class power all manner of twists and turns occur as political powers change hands and as the instruments of influence are weakened here or strengthened there. Any moving map would therefore feature turbulent currents of uneven geographical development that need to be tracked in order to understand how local transformations relate to broader trends.<sup>1</sup>

Competition between territories (states, regions, or cities) as to who had the best model for economic development or the best business climate was relatively insignificant in the 1950s and 1960s. Competition of this sort heightened in the more fluid and open systems of trading relations established after 1970. The general progress of neoliberalization has therefore been increasingly impelled *through* mechanisms of uneven geographical developments. Successful states or regions put pressure on everyone else to follow their lead. Leapfrogging innovations put this or that state (Japan, Germany, Taiwan, the US, or China), region (Silicon Valley, Bavaria, Third Italy, Bangalore, the Pearl River delta, or