

# Review essay

## The making of neo-liberalism

### *The Road from Mont Pèlerin: The Making of the Neo-Liberal Thought Collective*

Philip Mirowski and Dieter Plehwe (eds)

HARVARD UNIVERSITY PRESS, 2009

### *Invisible Hands: The Making of the Conservative Movement from the New Deal to Reagan*

Kim Phillips-Fein

NORTON, 2009

Reviewed by William Davies

'Neo-liberalism' is a concept both intriguing and infuriating. A common understanding suggests that the economic downturn of the 1970s fatally wounded the basic precepts of Keynesian political economy, creating the opportunity for a return to market liberalism, which duly arrived with the elections of Ronald Reagan and Margaret Thatcher.

But 'neo-liberalism' always implies so much more than this. It has become a term of abuse in the hands of the anti-globalisation movement, led by populists such as Michael Moore and Naomi Klein. For others it implies something mildly conspiratorial, linking free market economists, politicians, imperialists, capital and moral conservatives. Marxist academics have often used the word lazily to describe virtually any political, cultural or geographic novelty of the last thirty years. And now, in the wake of a financial crisis that appears strangely to have discredited neo-liberalism without weakening it, we find ourselves still struggling to define the system. Too often, the left has been so quick to oppose this amorphous entity that it has not taken the time to consider exactly *what* it is rejecting.

*The Road from Mont Pèlerin* and *Invisible Hands* offer a crucial service in this regard, by inviting us to understand neo-liberalism in terms of its origins, early protagonists, networks of intellectual coordination and animating political anxieties. As such, they constitute a fascinating case study of the genealogy and actualisation of a philosophy that, while always unwieldy and internally disputed, successfully coordinated economists, philosophers, business leaders, church leaders and finally politicians in a concerted effort to overturn liberal social democracy. Of all the crude representations of neo-liberalism that these books successfully demolish, the conspiracy theorist's depiction of it as a policy programme cooked up in smoke-filled rooms is never entirely dispatched.

## Learning from the left

In the context of the current economic crisis, some on the left will review this history in the hope of identifying the ingredients of their own intellectual and political counter-revolution. But the strategies and techniques of early neo-liberals were themselves a legacy of the left. Dieter Plehwe suggests that the Fabian Society provided an inspiration for the bridging of theory and practice that right-wing think tanks sought to bring about. Philip Mirowski, an outstanding analyst of economic thought (also known to a British audience as one of the chief contributors to Adam Curtis's BBC documentary, *The Trap*) goes further, depicting Friedrich Hayek as a quasi-Leninist, whose pursuit of fundamental political change was oblivious to questions of democratic legitimacy.

Neo-liberalism, Mirowski argues, is a constructivist creed, whose elements of faith need to be brought into existence by political agents and institutions. If society, academia and state deny the validity of the free market philosophy, then each must be strategically and patiently worked on, until their perspective has been altered. Amongst the more sinister stories contained in *Invisible Hands* is of how conservative-leaning corporations, such as General Electric and Lockheed Martin, set about 're-educating' their own workforce from the 1950s onwards, to discredit the unions and New Deal liberals.

But there was an additional, technical sense in which the neo-liberal pioneers inhabited the terrain of the left. Timothy Mitchell's essay in *The Road from Mont Pèlerin* refers to a claim he has made elsewhere, that the concept of 'the economy' only dates back to the birth of macroeconomics and econometrics in the 1930s. Prior to this, 'economy' was a practice or trait of government, but not something that could be represented as an object. Mitchell's thesis is that, from Keynes onwards, government economists are necessary actors in the construction of something called 'the economy'. Systems of economic knowledge become intertwined with economic events and policies.

Neo-liberals could not reverse this aspect of Keynesianism. There was no returning to nineteenth-century liberalism, in which the state stood 'outside' of the market as an impartial observer. Entangled with the constitution and representation of capitalism, the state would have to be reformed in such a way that economic liberty was resuscitated. As the essays in *The Road from Mont Pèlerin* stress repeatedly, neo-liberalism has never favoured a weak or small state, only a different one.

## The long game

What this reminds us is that neo-liberalism is the product of two crises, not one. The 1930s are as important to its genesis as the 1970s. Plehwe dates the term 'neo-liberalism' back to the mid-1920s, though the 1938 Colloque Walter Lippmann in Paris is viewed as the birth of the movement. Exiled in London, Hayek's messianic desire to invent and disseminate a new liberalism was born out of fear that totalitarianism might otherwise come to dominate the twentieth century. In the United States, a small network of economists such as Henry Simons and business leaders such as Leonard Read looked on with despair as the New Deal and trade union power appeared to be usurping market forces once and for all. American think tanks such as the Liberty League and the Foundation for Economic Education were founded by conservatives to criticise the New Deal. And following intense networking and fund-raising by Hayek, the Chicago School's Free Market Study was launched in 1946 in order to start mapping out an alternative political economy.

Between the Wall Street Crash of 1929 and the stagflation of the 1970s, the participants in these projects went about their work with the mentality of exiles. The Mont Pèlerin Society was founded by Hayek in 1947, specifically to provide community and critical debate for economic liberals who were otherwise marginalised intellectually and politically,

be they economists or otherwise. The Society's international reach was partly an indication of the scale of its ambition, but also paradoxically a symptom of the sparseness with which its supporters were scattered. Conservative business leaders felt pilloried in the US, with few friends in the Republican Party, Barry Goldwater's disastrous 1964 presidential bid notwithstanding. Only in Germany, where the 'ordo-liberals' clustered around Walter Eucken in Freiburg had been plotting a variant of neo-liberalism since the late 1920s, did the post-war period witness any influence for the proponents of economic liberty. But there, as Ralf Ptak's essay in *The Road from Mont Pèlerin* argues, the 'social market economy', featuring strong anti-trust and the rule of economic law, may have satisfied some aspects of Hayek's programme, but otherwise looked far too much like social democracy.

In this respect, neo-liberalism was born out of paranoia and despair. If it was launched as a counter-revolution, it was never an optimistic one. What can these books tell us about the catalysts that might have brought these intellectual and political losers in from the cold? *Invisible Hands* confirms the orthodox narrative regarding the fall-out from the 1960s American culture wars, which began to undermine the moral and political credibility of social liberalism over the 1970s. The book suggests that conservative business leaders fought back like an elastic band stretched almost to breaking point: by the early seventies, the civic attacks and legislative constraints aimed at US businesses were becoming so strong that the counter-movement in the form of The Business Roundtable lobby group and support for Ronald Reagan became inevitable.

The declining profitability of US corporations, as a result of growing Japanese and German competitiveness, and the dwindling fiscal conditions added economic thrust to the conservative argument. It was one thing for American corporations to be on the back foot culturally, but once they became threatened economically then political and patriotic sympathies for them began to rise. The Cold War could always be cited as an additional reason for the government to side with the producers of technology and wealth. As any Marxist theory of regulation would suggest, the new political economy was never going to take hold until the previous one had been hit by an accumulation crisis. In this respect, the Mont Pèlerin Society and early conservative think tanks were a holding pen, which nurtured and stored ideas until they could be used.

The neo-liberal waiting game lasted close to fifty years (Phillips-Fein remarks how the US televangelist, Pat Robertson, timed one missive praising the free market to coincide with the fiftieth anniversary of the Wall Street Crash). What fascinates, especially in the Mirowski and Plehwe collection, is how much the victorious, 'actually existing' neo-liberalism of the 1980s and 90s remained in the shadow of the hopeless, exiled neo-liberalism of the 1940s, 50s and 60s. The protagonists were largely surprised with the speed with which their ideas took hold. Rather as New Labour was often accused of being, they were suspicious of the power that they had acquired, and didn't trust it to last. They were doubtful that their programme would ever achieve popular appeal, though Hayek's commitment to liberty, like the Chicago School's commitment to efficiency, trumped any concern for democracy. The mentality of exile persisted, making neo-liberalism an endless up-hill struggle. See today how thirty years of 'New Public Management', efficiency drives and 'reinvention' of Whitehall still leaves the public sector represented as hopelessly irrational and inefficient by the doyens of McKinsey, *et al.* The work of neo-liberalism is never complete, and is always at risk of being undone.

### **Ideas and interests**

But the riddle of neo-liberalism, and the significance of its long period in exile, lies in its ability to assert itself into being. The constructivism of neo-liberalism, its belief that reality can be

remade through the dispersal of new concepts, helps to account for the remarkable patience of the counter-revolutionaries. *Of course* the world conformed to the leftist Keynesian depiction of it; the world was the product of that depiction. But this should not thwart a resolutely post-modern, pragmatist attempt to transform that depiction and world.

Hayek's starting point was suspicion of all claims to objective knowledge, believing that only the market could handle the plurality of perspectives at work in a modern society, without quashing any of them. In a somewhat laboured example, Mirowski suggests that wikipedia therefore demonstrates the final triumph of the neo-liberal worldview. Think tanks form such an important part of the neo-liberal story because they politicise idea-formation and dissemination in a way that the academy does not, or at least not consciously. A paradox ensues, whereby experts have no privileged access to objectivity, and yet elites are required to organise society accordingly.

What neither of these books makes explicit, though both indicate, is the way that neo-liberalism eventually confirms its own pessimistic vision of politics. Led chiefly by the Chicago School, neo-liberal thought casts doubt on the separation of economic and political spheres of life. Hayek had written in *The Road to Serfdom* 'there is no separate economic motive', because everything is ultimately economic. Chicago economists, such as Gary Becker and Milton Friedman, treat economics and markets as more democratic than democracy itself, on the basis that both politics and economics are reducible to the blunt question of deciding *how can each person get what he or she wants*. But this collapse of politics into economics also occurs over the course of the neo-liberal gestation period, in the way that a marginalised philosophy and political strategy were offered constant sustenance in the form of corporate donations.

This is where the conspiracy theorist's view of neo-liberalism achieves maximum plausibility. At every stage of the development of American conservatism and neo-liberal thinking, an interested party was bank-rolling the project. The Volcker Fund supplied the funding for the Chicago School's Free Market Study and paid for Hayek to travel from London and tour America. Conservative think tanks collected donations from corporations, to convert their anti-government instincts into credible research. *Invisible Hands* reports that, as early as 1958, twenty-six of the largest fifty American businesses were funding the free market American Enterprise Association.

The disdain that Hayek and his followers held for those who elevated politics above economics, democracy above markets, achieved practical efficacy in the way that they set about converting capital directly into ideas, and converting ideas directly into policies. Readers of Antonio Gramsci may be unsurprised to hear that capitalism produces hegemonic thought systems which universalise particular class interests. What is shocking is the nakedness and directness with which the wealth of corporate America was channelled into the neo-liberal project from the 1930s onwards. Perhaps Michael Moore has a point.

This raises one further question about how we understand neo-liberalism, and indeed how it understands itself. Is it a political strategy forged by economic ideas or one forged by economic interests? It can be seen either way, depending perhaps on whether one's account of history is of a more Hegelian or Marxist variety. Hayek himself viewed the world as the product of ideas, blaming the decline of economic liberalism on the rise of Germanic ideas in the late nineteenth century. German *ordo-liberals* were even more explicit in this worldview, believing that a legal constitution for the market needed to be deduced from a pure *idea* of a free, competitive economic order.

But much of the history of this project confirms the suspicion, however unsophisticated, that neo-liberalism was driven by the material interests of US employers and investors. Along the way, the movement was torn between a principled, 'liberal' neo-liberalism and a capitalist, patriotic neo-liberalism. Early protagonists tended more towards the former, which they viewed as a bulwark against the threat of socialism. Yet by the 1960s,

Chicago economists such as Friedman were happily promoting the interests of corporate America, with little regard for whether this actually amounted to a defence of freedom. Anti-trust policy is a good weathervane in this respect. Rob Van Horn's essay on the Chicago School's growing scepticism towards anti-trust indicates how it fell in love with big business between the 1940s and the 1970s.

### **Beyond neo-liberalism?**

Where does this leave the critique of neo-liberalism, following the near catastrophe of 2008? What might it tell us about alternatives or strategies to achieve them? The first thing to reflect on is the issue already highlighted, that neo-liberalism was the product of two crises, separated by almost half a century. It may be that this is a more typical model for the development of economic paradigms than that of Keynes, whose ideas moved swiftly from the academy into government during the course of one long crisis.

Looking beyond the present crisis, it may be that fiscal pressures and the declining competitiveness of Western producers leads to an even harsher, less equitable version of neo-liberalism over the coming years. If so, this will be the period in which the left needs to think seriously about alternative economic models, based on mutuality and a new, ecologically oriented concept of value that moves beyond the implied consumerism of neo-classical economics. This paradigm can be constructed from a position of exile, but it may take another crisis before it can be politically actualised.

Less obviously, there may be discarded parts of the neo-liberal programme that the left needs to adopt as its own. The principled, 'liberal' version of neo-liberalism that was manifest in the Freiburg School, which helped forge the German social market economy, represented a potentially radical critique of concentrated economic power. The critique of capitalism can be made as an egalitarian defence of markets, as the historian Fernand Braudel recognised and communitarians such as Phillip Blond have recently argued. Once the Chicago School defence of financial capital, hierarchy and monopoly becomes viewed as an act of nationalistic American lobbying, its intellectual coherence starts to fade. In its place, a version of neo-liberalism built upon a substantive, political vision of human freedom might be worth fighting for. Already there is work by the likes of Amartya Sen, Stuart White and Philip Pettit which points the way towards this more egalitarian version of economic liberalism.

What is more troubling for the left, and what plagued New Labour, is the fear that nice guys never win. The history of neo-liberalism reinforces a sense that the triumph of the right was achieved through intellectual aggression and political ruthlessness. The nihilistic vision of human beings as incapable of sustaining co-operative or democratic structures, drawing on Ayn Rand and Carl Schmitt, not only underpinned the policy prescriptions, but also shaped the political strategy.

The first step taken by any critic of neo-liberalism must be to disentangle the 'economic' from the 'political' once more, to resuscitate the Aristotelian sense that public discourse is a superior human capacity to private consumption. But there is risk attached to this, especially now that economic language has so successfully infiltrated public life (think of New Labour's 'consumers' of public services). Neo-liberalism is a vicious circle of cynicism, whereby economic depictions of politics breed hopeless, self-serving behaviour. Somehow the vicious circle must be broken, which, as Hayek knew, requires the assertion of a new intellectual paradigm altogether.

**William Davies** is a Research Fellow at the Institute for Science, Innovation and Society, Saïd Business School, Oxford University, and an Associate Editor of *Renewal*.