

**EMBARGOED UNTIL 7.00 PM WEDNESDAY 18 DECEMBER 2002**

**ACT WELLINGTON REGIONAL MEETING**

**WHAT'S ALL THIS ABOUT 'NEOLIBERALISM'?**

**ROGER KERR  
EXECUTIVE DIRECTOR  
NEW ZEALAND BUSINESS ROUNDTABLE**

**WELLINGTON  
18 DECEMBER 2002**

## WHAT'S ALL THIS ABOUT 'NEOLIBERALISM'?

Over the last few years, some strange new terminology has crept into public debate in this country.

One case in point is the use of the term 'neoclassical' to describe the more market-oriented approaches that governments around the world have adopted over the past 20 years. Rejecting the advice that the Organisation for Economic Development and Cooperation gave in its latest report on the New Zealand economy earlier this year, finance minister Michael Cullen said: "It's the OECD neoclassical approach".

As an economist, I had no trouble recognising this label as pure fantasy. It would come as a great surprise to most OECD officials and their counterparts in OECD capitals. I know of no one associated with New Zealand's economic reforms who saw them as based on neoclassical economics. Back in 1986 I published a paper which explained how naïve ideas of perfect competition and market failure associated with neoclassical economics, along with naïve Keynesian ideas, had shunted economics up the wrong track. It spelled out the insights from economic research on transactions costs, organisations, public choice, entrepreneurship and other topics that were influencing economic thinking in New Zealand and other OECD countries. Some market-oriented economists go so far as to reject neoclassical economics altogether. So we need not dwell any longer on that particular piece of mislabelling.

But while 'neoclassical' is a valid and longstanding categorisation of a body of economic ideas, a new and curious entry into the political lexicon is the term 'neoliberal'. I have struggled to fathom its origin and meaning and was prompted to take a closer look at the term when I saw it used recently, again by Michael Cullen. In a speech to the government-union forum on 7 November 2002, Dr Cullen observed that the New Zealand government rejected what he called the 'neoliberal' route to growth: that is, "low taxes, as little regulation as possible, the privatisation of as much economic activity as possible, and a minimalist state". This model, he said, had "influenced the design of policy in the late 1980s, and dominated it in the 1990s."

Why did he use the term 'neoliberal'? With a little less overstatement, he could have called the 'neoliberal' route to growth simply the 'liberal' route to growth, or just 'economic liberalisation', and been justified in so doing. But there has been an emerging fashion for using the term 'neoliberal' instead. Indeed, in February 2002 prime minister Helen Clark gave an address at the London School of Economics titled 'Implementing a Progressive Agenda After Fifteen Years of Neoliberalism: The New Zealand Experience'. I will come back to this address later on. But Dr Cullen appears to have been inspired to use the term, not by the prime minister, but by an American economist J Bradford DeLong who used it in a review, dated August 2001, of a book by William Easterly, *The Elusive Quest for Growth*. According to Dr Cullen, DeLong had at one point written:

There is a sense in which neoliberalism as we know it is a counsel of despair. Most of what is needed is beyond its reach. The hope is that privatisation and world economic integration will in the long run help create the rest of the preconditions for successful development. But we are playing this card not because we think it is a winner, but because it is the last one in our hand.

Reading this passage out of context, you would expect DeLong to be, like Dr Cullen, a critic of neoliberalism. But in fact DeLong says, near the start of his review, that neoliberalism is "an ideology I believe in".<sup>1</sup> His point is that 'neoliberal' policies like free trade and smaller government by themselves don't automatically make for governments that invest in public goods, or for accountable political systems, or for a national consensus for growth. But he clearly espouses the conclusion of Easterly, a former World Bank economist whom the Business Roundtable helped bring to New Zealand earlier this year, that "Prosperity happens when all the players in the development game have the right incentives". Dr Cullen completely misunderstood what DeLong was saying.

But perhaps we shouldn't be too harsh in our criticism because DeLong may well be in limited company in openly signing up in support of what he calls 'neoliberalism'. Most people who refer to it, like Helen Clark, are critics. Andrew Norton, of the Centre for Independent Studies in Sydney, has observed that the term emerged on

---

<sup>1</sup> J Bradford DeLong, 'The Last Development Crusade', August 2001, [http://econ161.berkeley.edu/TotW/Easterly\\_neoliberal.html](http://econ161.berkeley.edu/TotW/Easterly_neoliberal.html)

the political left in the 1990s and, while he thinks its ideological tone doesn't correspond to any Australian reality, he says:

... it does describe the people who use it. Using 'neoliberal' is code for 'I am a left-winger who does not like markets'. It is a leftist version of the secret handshake; a signal that the reader is with fellow travellers. It is especially useful for academics seeking overseas recognition and the globalised anti-globalisation movement.<sup>2</sup>

Just how rapidly and successfully the term has spread is indicated by a story told by Mario Vargas Llosa, the novelist and former candidate for president of Peru. Recently the little Spanish town of El Borge held a plebiscite in which its thousand citizens were asked to decide between the alternatives of 'humanity' and 'neoliberalism'. The result was an overwhelming victory for humanity, which received 515 votes as against a mere four for neoliberalism. Vargas Llosa wonders whether they were four clowns or four sages.

Vargas Llosa goes on to note that this event is just an extreme of "a vast political and ideological movement, solidly rooted in sectors of the left, centre, and right, and united in a tenacious distrust of liberty as an instrument for the solution to the problems of humanity. They have built up their fears into a new phantom and called it 'neoliberalism' ".<sup>3</sup>

Soon I will say something about this movement. But let's stay with Vargas Llosa for a moment, because he goes straight to the deception at the heart of the term 'neoliberalism':

I consider myself a liberal. I know many people who are liberals, and many more who are not. But, throughout a career that is beginning to be a long one, I have not known a single neoliberal. What does a neoliberal stand for? What is a neoliberal against? In contrast with Marxism, or the various kinds of fascism, true liberalism does not constitute a dogma, a closed and self-sufficient ideology with prefabricated responses to all social problems. Rather, liberalism is a doctrine that, beyond a relatively simple and clear combination of basic principles structured around a defense of

<sup>2</sup> Andrew Norton, 'Naming the Right', *Quadrant*, December 2001, p 62-5.

<sup>3</sup> Mario Vargas Llosa, 'Liberalism in the New Millennium', in David Boaz (ed), *Toward Liberty: The Idea that is Changing the World*, Cato Institute, Washington DC, 2002, p 26.

political and economic liberty (that is, of democracy and the free market), welcomes a great variety of tendencies and hues. What it has not included until now, nor will include in the future, is that caricature furnished by its enemies with the nickname neoliberal.

A 'neo' is someone who pretends to be something, someone who is at the same time inside and outside of something; it is an elusive hybrid, a straw man set up without ever identifying a specific value, idea, regime, or doctrine. To say 'neoliberal' is the same as saying 'semiliberal' or 'pseudoliberal'. It is pure nonsense. Either one is in favor of liberty or against it, but one cannot be semi-in-favor or pseudo-in-favor of liberty, just as one cannot be 'semipregnant', 'semiliving', or 'semidead'. The term has not been invented to express a conceptual reality, but rather, as a corrosive weapon of derision, it has been designed to semantically devalue the doctrine of liberalism. And, as we enter the new millennium, it is liberalism – more than any other doctrine – that symbolizes the extraordinary advances that liberty has made in the long course of human civilization.<sup>4</sup>

What then is the origin and nature of this movement against so-called neoliberalism? If you search the Internet for 'neoliberalism', you will get many thousands of hits. Many of them take you to the web sites of various 'non-governmental organisations', or NGOs, involved in what Andrew Norton, in the quotation above, calls "the globalised anti-globalisation movement". These NGOs like to think of themselves as representing something called 'global civil society'. Although they are wholly self-appointed, whatever their rhetoric about representing spontaneous grass-roots social 'movements' of the poor and oppressed, they have in recent years secured a semi-official standing at world trade summits. Their greatest success has probably been their central role in killing off the proposed intergovernmental Multilateral Agreement on Investment in 1998, which would have promoted the liberalisation of foreign direct investment. Their visibility seems to have reached a peak at the Seattle summit in 1999. After the terrorist attacks on the United States of 11 September 2001, their influence seems to have waned somewhat, perhaps because those events acted out the logical conclusion of some of their anti-Western and anti-American views. But they are far from silenced, and some of their spokespersons are highly articulate and skilled in using the media. These include not just old and familiar ones like Noam Chomsky but also young and charismatic ones like Naomi Klein, author of *No Logo: Taking Aim at the Brand Bullies* (2000) and *Fences and Windows*

---

<sup>4</sup> *Ibid*, p 27-8.

(2002). In New Zealand, Jane Kelsey of the University of Auckland is an outspoken critic of neoliberalism and globalisation.

Some of the many primers in neoliberalism posted on these web sites distinguish 'neoliberalism' from 'liberalism' or 'market liberalism'. One of them, selected more or less at random, views neoliberalism as a very extreme version of liberalism:

If Adam Smith returned to life and saw some of the more extreme aspects of neoliberalism, he would probably find them bizarre. Nevertheless, they derive from the ideas of early liberalism. The belief in the market, in market forces, has separated from the factual production of goods and services. It has become an end in itself, and this is one reason to speak of 'neoliberalism' and not of 'liberalism'.

The author maintains that the aim of neoliberalism is to extend the realm of the market so that it encompasses all human relationships. That's right: literally *all* human relationships:

A general characteristic of neoliberalism is the desire to intensify and expand the market, by increasing the number, frequency, repeatability, and formalisation of transactions. The ultimate (unreachable) goal of neoliberalism is a universe where every action of every being is a market transaction, conducted in competition with every other being and with every other transaction, influencing every other transaction, with transactions occurring in an infinitely short time, and repeated at an infinitely fast rate. No surprise, that extreme forms of neoliberalism, and especially cyberliberalism, overlap with semi-religious beliefs in the interconnectedness of the cosmos.<sup>5</sup>

You won't be surprised that tracts like this typically give no references to any sources that might provide evidence that anyone actually believes this stuff.

Another primer, called 'What is Neoliberalism? A Brief Definition for Activists', by Elizabeth Martinez and Arnaldo Garcia, is found in the web site of CorpWatch ('Holding Corporations Accountable'). It too is aware that 'neoliberalism' implies that there is or was such a thing as 'liberalism'. It gives a potted, naive and unreliable economic history which covers the last two and a quarter centuries in three paragraphs. This is the first of them:

---

<sup>5</sup> <http://web.inter.nl.net/users/Paul.Treanor/neoliberalism.html>

'Neo' means we are talking about a new kind of liberalism. So what was the old kind? The liberal school of economics became famous in Europe when Adam Smith, an English economist, published a book in 1776 called *The Wealth of Nations*. He and others advocated the abolition of government intervention in economic matters. No restrictions on manufacturing, no barriers to commerce, no tariffs, he said; free trade was the best way for a nation's economy to develop. Such ideas were 'liberal' in the sense of no controls. The application of individualism encouraged 'free' enterprise – which came to mean, free for the capitalists to make huge profits as they wished.

The second paragraph takes us briefly through the Keynesian and New Deal interludes, and the third to the "capitalist crisis of the last 25 years" which "inspired the corporate elite to revive economic liberalism. That's what makes it 'neo' or new. Now, with the rapid globalisation of the capitalist economy, we are seeing neo-liberalism on a global scale".<sup>6</sup>

Susan George, however, in her 'A Short History of Neoliberalism' posted on the web site of the Global Policy Forum, disdains to go further back than the end of the Second World War. Nor does she make any complicated distinction between 'liberalism' and 'neoliberalism'. According to her account, the beginnings of neoliberalism have a science-fiction quality, as the masters of the universe planned to globalise the world from the groves of academe:

Starting from a tiny embryo at the University of Chicago with the philosopher-economist Friedrich von Hayek and his students like Milton Friedman at its nucleus, the neo-liberals and their funders have created a huge international network of foundations, institutes, research centers, publications, scholars, writers and public relations hacks to develop, package and push their ideas and doctrine relentlessly ... So, from a small, unpopular sect with virtually no influence, neo-liberalism has become the major world religion with its dogmatic doctrine, its priesthood, its law-giving institutions ...<sup>7</sup>

The anti-globalisers take it as axiomatically and self-evidently true that the market transactions that make up neoliberalism are exploitative, and claim that the West generally and the United States in particular is imposing on the whole world, in the name of globalisation, a single neoliberal system in which an elite of shareholders is

<sup>6</sup> <http://www.corpwatch.org/issues/PID.jsp?articleid=376>

<sup>7</sup> <http://www.globalpolicy.org/globaliz/econ/histneol.htm>



enriching itself at the expense of an ever-growing and ever-poorer mass of humanity. The agents of this system of exploitation are the multinational corporations, and their chosen instruments for extending their reach are the World Bank, the International Monetary Fund (IMF), and the World Trade Organisation (WTO). The anti-globalisation movement seeks to insert itself into the deliberations of these bodies in order to voice the concerns and promote the interests of the world's poor whose livelihoods, so they insist, are threatened by the depredations of international capital.

It's not that difficult to refute the claims of the anti-globalisers. Take the claim that the world is run by the multinational corporations. *The Economist* of 27 March 1993 reckoned that the number of multinationals had grown at least fivefold in the two decades to 1993, and that the top 100 multinational companies accounted for nearly half of all cross-border assets. However, that represented only about 16 percent of the world's productive assets. It's unlikely that that figure will have shifted greatly in the last nine years. However, the anti-globalisers like to claim that national sovereignty has been superseded in the global economy by corporate power, and the proof is that the economies of some countries are worth less than some multinational corporations. This so-called proof was recently shot to pieces by Martin Wolf, associate editor of the *Financial Times*, who showed that it is derived by comparing the gross domestic *product* of countries with the total *sales* of multinationals. If countries' GDPs are compared, as they should be, with the *product* of multinationals, and if it is recognised that no company, however large, has the coercive powers of governments, then the conclusion must be that "countries still rule the world".<sup>8</sup> (Martin Wolf, incidentally, is visiting New Zealand next year to give the Business Roundtable's annual Sir Ronald Trotter Lecture.)

---

<sup>8</sup> Martin Wolf, 'Countries Still Rule the World', *Financial Times*, 5 February 2002.

Second, the claim that national and international economic governance serves corporate interests in an exclusively globalising manner ignores evidence that governments can and still do favour corporations in ways that directly contradict the imperatives of 'neoliberalism'. The most prominent recent case of this is the action of President Bush to impose tariffs on steel imports into the United States. This was most assuredly a case of government favouring corporations, but the corporations were not multinational and the favours reduced rather than enhanced globalisation. Should the anti-globalisers then have welcomed the move? The trouble is that in one specific case - the Common Agricultural Policy of the European Union - they actually favour *more* globalisation, correctly perceiving that farm subsidies in rich countries blight the economic prospects of farmers in poor countries. So it is that anti-globalisation demonstrators at international trade summits can include both protectionists and farm free traders, in one of the world's major current examples of doublethink.

Third, there is the all-important claim that globalisation is causing poverty to increase while the rich are getting richer: if so, then globalisation would indeed appear to be a system of exploitation. But the evidence on poverty points in the opposite direction. The number of people living on less than US\$1 per day has fallen from 20 percent of the world's population to 5 percent over the last 25 years. The number living on less than US\$2 per day has fallen from 44 percent to 18 percent. There are between 300 and 500 million fewer poor people today than there were in the 1970s.<sup>9</sup>

As for inequality, the period of rapid globalisation since 1980 has been marked by the first reduction in global income inequality across countries in more than 200 years with the economic progress made by China and India, in particular. Research shows that within countries there is no systematic relationship between increased integration into the world economy and income inequality. In some countries it has been stable or fallen. In others, such as China, inequality has risen. But as one researcher has put it:

---

<sup>9</sup> Xavier Sala-i-Martin, 'The Disturbing "Rise" of Global Inequality', [www.columbia.edu/~xs23/papers/refern.htm](http://www.columbia.edu/~xs23/papers/refern.htm)

The Chinese example, however, shows that rising inequality is not necessarily a bad thing. The Chinese people used to be very equal in their poverty. Now they are somewhat less equal – and somewhat less poor. The decision to open up and globalise China's economy has undoubtedly benefited its people as a whole.<sup>10</sup>

Devastating though these points are for the anti-globalisers, they fail to get at their fundamental intellectual weakness, which is, however, also the source of their impregnable self-confidence. This is their blissful unawareness that policies of free trade and smaller government are a response to the failure of previous policy regimes to promote economic growth in the developed world or to end the poverty of the developing world. It is this lack of engagement with the real world, and their air of having just discovered some monstrous evil that has inexplicably escaped the attention of everyone else, that allows the anti-globalisers to present policies of globalisation as reflecting an ideology of 'neoliberalism' as opposed to a pragmatic policy consensus that has adherents from across the traditional left-right spectrum.

As J Bradford DeLong shows in the book review that that Dr Cullen cites, globalisation follows three development crusades since the Second World War that have failed: the 'building socialism' crusade, inspired by the model of the Soviet Union; the 'financing gap' crusade involving aid-financed investment; and import-substitution industrialisation – in New Zealand the failed strategy associated with the name of William Sutch. Globalisation is still in its early stages, and whatever its inevitable disappointments it has so far been successful enough to keep any alternative approach off the agenda. For make no mistake, the anti-globalisers have no alternative policies: for them, it's as if opposing neoliberalism and reversing globalisation is enough to make sure that all will be well. Their very ignorance of 50 dismal years of development economics and policies seems to sustain their preference for appearing virtuous rather than being right.

Their silence about or ignorance of Marxism and Leninism is on the face of it especially striking. After all, it was Marx who presented the first rigorous account of capitalism as a system of class exploitation. But then, perhaps there is a reason. For although Marx was spectacularly wrong in presenting capitalism as a system of exploitation rather than as a system of mutually beneficial exchanges, he was in no

---

<sup>10</sup> Michael Mosbacher, 'Globalisation: A Force for Reducing World Poverty', Pfizer forum, *The Economist*, December 7-13, 2002.

doubt that global capitalism was a progressive force, uniting the whole of humanity in developing the forces of production necessary to sustain communism. For the true Marxist, opposing globalisation is not only a futile attempt to defy history but also places gratuitous obstacles in the path of humanity's march out of poverty and into communism. But then the anti-globalisation movement, in its stridently moralistic commitment, its simple-mindedness, its paranoia, and its contempt for facts and rational argument, is closer to Nazism than to Marxism.

Earlier I said that I would come back to Helen Clark's address at the London School of Economics about New Zealand's experience of "fifteen years of neoliberalism". Anti-globalisers generally may have little grasp of recent economic history, but no New Zealander who was a thinking adult 20 years ago could be unaware that our economic policy was then on the wrong track. In her address the prime minister indeed recognises that New Zealand was failing to adapt to changing world conditions and was falling rapidly behind, and she accepts that many of the changes introduced by the Labour government that came to office in 1984 had to happen. But she distances herself from the spirit of those changes which, she says, were introduced by a government that was following "the advice given to it by a Treasury heavily influenced by neoliberalism". It seems that the government had little choice, since while the prescriptions of old Labour didn't fit the bill, "third way options were not developed in the social democratic menu". As a result, she says, "no thought was given to adjustment mechanisms ... As the old industries declined, there was no smart active government to facilitate the new". New Zealand, she goes on, marked time under its neoliberal regime through the 1990s. Then in 1999 Labour returned to office, this time equipped with genuine social democratic policies of the kind that had been developed in several countries in the previous decade, by the 'New Democrats' under the Clinton presidency in the United States and by New Labour in the United Kingdom.

It seems to me that using the term 'neoliberalism' to characterise the policies of New Zealand governments from the mid-1980s to the late 1990s makes it possible to draw contrasts and set up polarisations which are politically convenient but intellectually bogus. Roger Douglas was always clear that his policies of deregulation and liberalisation reflected social democratic values of fairness, by removing privileges

and obstacles to access to goods and services, such as import licensing, which had benefited influential special interests and done most harm to the poor. Moreover, adjustment mechanisms were perhaps neglected in the sense that the Labour government of the 1980s failed to free up the rigid labour market, but that is probably not the criticism the prime minister had in mind. Also, far from dismantling the welfare state as an adjustment safety net, post-1984 governments continued to increase social welfare spending, which is today at record levels. And instead of "marking time", as the prime minister asserted, the economy grew by 3.3 percent a year on average in the 10 years to 2002, a rate of growth equal to that of the United States. The economy that "marked time" is now nearly 40 percent larger than it was a decade ago.

Conversely, there is nothing uniquely 'social democratic' about the industry policies that the prime minister talks about in her address. She claims that modern, 'third way' social democrats want:

... the state to take a leadership role in strategies for economic development, using the full ability it has to facilitate, co-ordinate, and broker, and using its funding powers to maximise investment and participation in education and skills training ... The state can also define the values which are important to the nation's development. In the New Zealand Government we believe in promoting innovation and enterprise to build economic prosperity, and also in being collaborative, compassionate, and inclusive.

Here we may have a fashionable new terminology to oppose to that of 'neoliberalism', but how do the policies so described differ essentially from the sort of interventionism practised by governments of all parties in New Zealand until it fell apart with Muldoon's 'Think Big' programmes? What exactly are the market failures in 'facilitating', 'coordinating' and 'brokering' that warrant government attempts to undertake these things? The prime minister refers in her address to a "sector targeting" approach, but can the Ministry of Economic Development and Industry New Zealand really be expected to succeed where Japan's MITI failed? Above all, how exactly is the state able to "define the values which are important to the nation's development", and what, in a free society, gives it the right to do so? And in case we in New Zealand are in danger of forgetting our own experience of "the developmental state", we should compare the present travails of those two of the

world's four largest economies that have gone down the road of managed capitalism with the relative success of the two that have stayed with the more market-oriented variety. In Japan and Germany enlightened opinion knows that the only way out of their otherwise permanent stagnation is to imitate the 'Anglo-American' embrace of foreign investment, corporate takeovers, popular shareholder capitalism, and flexible labour markets. But the chattering classes' bogey of 'neoliberalism' erects a major intellectual obstacle to open debate about the necessary reforms.

To summarise: the term 'neoliberalism', used in preference to plain 'liberalism', is intellectually suspect in associating a particular policy agenda promoting economic freedom with a supposed ideology that serves elite interests. In reality that agenda emerged from the crucible of bitter experience, and has been accepted by pragmatic politicians of all parties, in both the developed and the developing worlds, as necessary for realising popular aspirations for prosperity. The term 'neoliberalism' pays tribute to liberty by admitting its centrality and also the high value that we place on it, but then undermines it through the distancing and ironic tenor of the prefix 'neo', as Mario Vargas Llosa shows so eloquently. Naturally, intellectuals hostile to economic freedom find its successes even less forgivable than its failures: after all, if economic freedom works, who needs intellectuals?

Finally, I have a suggestion for politicians who are fond of the term 'neoliberalism'. They may well have their reasons for continuing to use it. But if so, will they please be scrupulously balanced and consistent, and refer to their own proposals for more 'hands-on', interventionist government as 'neosocialism'?