

Neoliberalism, Austerity, and Authoritarianism

July 15, 2015

Ask anyone what neoliberalism means and they'll tell you it's an economic system that corresponds to a particular economic philosophy. But any real-world economic system has a corresponding political system to promote and sustain it. Milton Friedman, who has become known as the father of neoliberal thinking, claims in his text *Capitalism and Freedom* that "the role of the government ... is to do something that the market cannot do for itself, namely, to determine, arbitrate, and enforce the rules of the game."* While neoliberalism's advocates like to claim that the political system that corresponds to their economic preference is a democratic, minimal state, in practice, the neoliberal state has demonstrated quite the opposite tendency.



This essay will begin by sketching out the core tenets of neoliberal theory, tracing its history from the classical liberal tradition of the Enlightenment. I will then present some hypotheses on how relations between the neoliberal state and society operate, contrasting the state theories of Ralph Miliband and Nicos Poulantzas to create a framework that shows how the neoliberal state is a product and enforcer of anti-democratic practices. I will argue that the implementation of neoliberal economic policy, and the subsequent evolution of the neoliberal state, has historically been completed through anti-democratic methods. Further, in an effort to produce social relations that are more favorable to the accumulation of capital, austerity is employed as a tool to move further toward a market society, creating a larger, more interventionist state and promoting authoritarianism.

Neoliberalism in Theory

The term neoliberal is often convoluted, confused, and misinterpreted, especially in the American context where the center-left Democratic Party has traditionally held the title of liberal. The original liberals, or classical liberals as they are usually called, were those Enlightenment-era thinkers of Western European origin who desired to limit the authority of the feudal state and defended individual rights by restricting the power of the state, the crown, the nobility, and the church. The "neo" prefix serves as a romantic symbol, an attempt at establishing a (sometimes forced) common ground with historical figures like Adam Smith and the classical liberals, who challenged the tendencies of the monarchy to interfere in the economy for its own gain, producing inefficiency. Neoliberal economic thinkers are famously known for deriding government intervention in the economy, precisely because they trace their foundation to a period when markets were seen not just as a source of better economic outcomes, but as a weapon to challenge concentrated political power.

This revamping of liberalism appeared in the twentieth century at a time when its proponents believed they were facing a similar struggle against the expanded state apparatuses of Europe—communist, social-democratic, and fascist. Friedrich Hayek, whose text *The Road to Serfdom*, published in 1944, is arguably the most celebrated of the neoliberal canon, sought to show how government interference in the economy forms the basis of fascist and other totalitarian regimes, contrary to the then widely accepted notion that it was capitalist crisis that had produced fascism in Europe. For Hayek, the strong state, whether in the form of fascism, Soviet communism, or the creeping socialism of the British Labour Party, was to be eschewed.

If neoliberalism springs from a desire to combat the growing power and influence of the state, how is it that neoliberalism has produced not only a very robust state apparatus, but, as I will argue, an authoritarian one? The answer is that neoliberalism in practice has been quite different from its theory.

The Necessities of the State in Neoliberal Theory

As David Harvey points out in *A Brief History of Neoliberalism*, the neoliberals' economic ideals suffer from inevitable contradictions that require a state structure to regulate them. The first of these contradictions revolves around the role of law to ensure the individual's superiority over the collective in the form of private ownership rights and intellectual property rights (patents and copyrights). A judicial system is necessary to designate and regulate the interaction between private actors on the market. While intimations of the regulatory state can be seen in this formulation, it is hardly anything controversial. Only the most extreme of laissez-faire economic thinkers would not acknowledge the requirement of a state structure that creates the space for and regulates contracts.

The second contradiction derives from the elites' historical ambivalence regarding democracy and mass participation. If the people were free to make decisions about their lives democratically, surely the first thing they would do is interfere with the property rights of the elite, posing an existential threat to the neoliberal experiment. Whether these popular aspirations take the form of drives towards unionization, progressive taxation, or pushing for social policies that require the redistribution of resources, the minimal state cannot be so minimal that it is unable to respond to and crush the democratic demands of citizens. After all, as pointed out in the first contradiction, the neoliberal state exists in theory to guarantee the rights of the individual over the demands of a majority. Therefore, a system must be put in place that protects against the "wrong" decisions of a public that is supposed to buy, sell, act, and choose freely.

Two Levels of Authoritarianism

Any method that seeks to subvert the democratic demands of citizens, whether through force, coercion, or social engineering, is authoritarian. I argue here that the neoliberal state is authoritarian in two distinct but related forms. First, the historical imposition of neoliberalism on nation-states is the result of anti-democratic forces. Second, the maintenance of neoliberalism requires a market society achieved through a transformation in civil society. For this transformation to take place, welfare states must be slimmed down by austerity policies in order to turn over to the market potentially lucrative sectors of the social economy (in health care, education, social security, and so on). Public resources must become privatized; the public good must be produced by private initiative. Neoliberal economic policy can only function with a state that encourages its growth by actively shaping society in its own image, and austerity is the tool to push for that transformation. While the subversion of democracy is clearly authoritarian, the drive towards a market society and the social engineering necessary to maintain that society are further expressions of the de facto authoritarianism of neoliberalism and the neoliberal state.

Austerity traditionally has been defined as the economic policies surrounding deficit cutting. When public debt runs too high, according to the theory, the accounts must be balanced by cutting spending and raising taxes. It is important to look past the theory to see the results of austerity in practice and understand austerity as a social-historical force. To do this, one must define austerity from the perspective of its victims. Pablo Iglesias, leader of the Podemos party in Spain, in his February 17 appearance on the *Democracy Now!* show, did just that by arguing that austerity is when people are forced out of their homes, when social services do not work, when public schools

lack resources, when countries do not have sovereignty and become the colonies of financial powers. He closes by saying that austerity is the end of democracy, because without democratic control of the economy, there is no democracy.

The State and Society

The nature of how the state affects society has been a contentious topic within left traditions. Most notably, the debate between Ralph Miliband and Nicos Poulantzas that took place in the pages of the *New Left Review* in the early 1970s refreshed the study of the state. Miliband, in his *The State in Capitalist Society*, stressed an instrumentalist position, arguing that the reproduction of capitalism in society is due to the socialization of the ruling class in the tradition of capitalist dogma. As a large proportion of those who dominate the state and control its levers come from an elite education (he was writing from the perspective of British politics in the mid-twentieth century), it's no surprise that they believe their theories to be correct and just, while the state they run serves the interests of capital. The writings of Poulantzas, in particular *Political Power and Social Classes*, argued a structuralist position strongly influenced by the thought of Louis Althusser. He claimed that the relation between the ruling class and the state was an objective relation, meaning that the coincidence of bourgeois ideology with the ideology of the state was a matter of how the system itself is organized. Their two state theories, the former arguing that the state is an instrument of the ruling class and the latter arguing that the state is the objective result of the capitalist system, shed light on the differences in conceptualizing not only the capitalist state, but how the state relates to and is legitimized by society. Is the market society a result of policies implemented by individuals in power who are trained in a particular neoliberal tradition, or an objective outcome of capitalist social relations that are the superstructural product of a system?

What could arguably be the genius of neoliberalism is the way in which it takes these two approaches to state theory and blends them. On the one hand, for Miliband, the neoliberal state is the extension of ruling-class free-market ideology, propagated by government bureaucrats, military officials, and technocrats who can speak no other language than that of the privileged status of capital and who hold the belief that they are serving the greater good. On the other hand, as Poulantzas suggested, neoliberalism needs to ensure its own survival by bending civil society, political institutions, and democracy to its will.

A state that so blatantly puts the rights and needs of one small class of citizens over others cannot be installed without a struggle. And further analysis shows us that once neoliberal regimes come into power, a certain degree of social engineering and coercion are necessary in order to guarantee the submission of the population and ensure the smooth accumulation of capital. In what follows, I would like to lay out how neoliberal austerity regimes were installed, and also draw on hypotheses of how they are maintained. However, as each socio-political system is unique in its history, culture, norms, and traditions, the manifestation and maintenance of the neoliberal state differs depending on whether we are talking about core countries or peripheral ones, to use the terminology of World Systems Theory. The common denominator is the empowering of elites over the masses with the assistance of international forces through military action or financial coercion—a globalized dialectic of ruling classes.

Peripheral Neoliberal States

In the periphery, those countries that have been dominated by colonial and neocolonial developed countries, economic and political trends beginning in the 1970s show that neoliberalism has been installed by the use of force. The Latin American experience demonstrates how neoliberalism was established through military operations and coups d'état. In Chile, the democratically elected president Salvador Allende was overthrown and the U.S.-backed dictatorship of Augusto Pinochet

proceeded to crush labor unions and popular movements, privatizing a chunk of the public sector. When Pinochet stepped down, initiating a transition to democracy, he left behind the constitution that he had signed and put in place after the coup. Demands to chip away at this “constitution of the dictatorship,” as it is referred to in Chile, are present in Chilean social movements, most recently the student movements seeking to reform the deeply unequal private higher education system. The reforms that were the bedrock of a reactionary counter-revolution in the country were brought about through force, violence, and physical coercion as seen in the torture and systematic repression of the regime’s opponents.

The maintenance of such a regime could only be guaranteed through the dissolution of civil society to ensure that all avenues of dissent were illegal. Political representation in the National Congress was impossible because it was dissolved as civil liberties were proscribed. Organizations of a civil society, including unions, political parties, and groups set up by the Catholic Church to tend to the needs of the families of the disappeared, were treated as opposition organizations and were forbidden. It is estimated that tens of thousands of Chileans were tortured, while up to 200,000 were exiled, shocking the population into submission through fear. The laws regulating dissent were so strict that when the plebiscite was held to transition to democracy, special arrangements needed to be made to allow political groups the ability to organize and campaign, an attempt to reinvigorate a minimal civic culture in the country.

While Chile was the first and one of the main examples of the growth of neoliberalism, it has been far from unique. Economic “shock therapy” has become central to U.S. foreign policy, from Argentina in 1976 to the reintegration of post-communist states into the global capitalist economy. A quick comparison between countries listed as “not-free” by Freedom House and those that employ free-market neoliberal policies stresses this point. From Kazakhstan and Azerbaijan in Central Asia, to the crisis-ridden state of Mexico, and the neoliberal reforms of dictators in the Middle East and North Africa, the notion that capitalism and democracy form a symbiotic relationship and support each other has been debunked. The dissolution of civil society goes hand in hand with the imposition of a neoliberal state through violence, in order to ensure that threats to the state’s activities remain unchallenged.

Core Neoliberal States

In core countries, meanwhile, austerity and authoritarianism follow a different pattern. There, neoliberal political systems have been created through financial coercion and are held hostage by financial interests due to the economic “necessities” created by bankruptcies and budget deficits. The test in this case is New York City, where the consequences of the depression of 1974-75 run deep. Kim Moody, in *From Welfare State to Real Estate*, traces the political and economic alliance that took advantage of social pressures from deindustrialization, white flight, and global economic crisis to implement the reforms that would give rise to a complete transformation of the city’s social fabric. His analysis shows how a united business elite was able to thwart the democratic interests of the city’s working classes by using the budget, the deficit, and financial coercion to rein in what they saw as an unsustainable welfare state. A crisis regime was put in place representing a business class unified in its desire to reshape the social democratic polity of New York City, using the city government to achieve this transformation. What began as a move by bankers to shut the city out of the bond market evolved by 1975 into the establishment of the Emergency Financial Control Board, which set its sights on imposing tuition on the City University of New York system, increasing the fares for mass transit, and limiting welfare payments. It’s a story that has become all too familiar in the twenty-first century and a tactic that is being replayed in other cities, states, and nations.

Given the history of uninterrupted constitutional rule in the United States, the installation of neoliberalism requires the engineering of society through the transformation of institutions. By

giving the market the freedom to determine when wages will be lowered, when jobs will be shed, and when communities will be destroyed, while simultaneously dismantling social welfare programs to increase the market's authority, a social crisis is produced that requires a police force to maintain order. This relationship has inspired the work of sociologist Loïc Wacquant for two decades. Combining a Marxist materialist approach to observe the socio-economic conditions that have influenced the growth of the American penal system with a Durkheimian symbolic perspective, which stresses how the prison serves as a symbol of disciplining power, his work *Punishing the Poor* argues that the expansion of correctional facilities should be seen as correlated with the rise of the neoliberal state. He notes how "welfare reform" corresponded with the expansion of the imprisoned population, signaling a shift in how contemporary neoliberal society treats the most vulnerable among us. This means that not only do prisons and jails serve as the place to physically keep those who have been convicted of criminal behavior, but they also serve as an alternative source of labor-power harvesting. The Thirteenth Amendment to the U.S. Constitution explicitly allows penal labor, and while this has historically been organized by state-run corporations such as UNICOR, recent legislation allows the private sector to tap into the penal labor pool. Meant as an alternative to outsourcing, this practice is referred to as "smart-sourcing" (see www.unicor.gov/services/contact_helpdesk/).

The consequences of neoliberal reform and the penal society in the United States are related in more ways than one. While prisons are filled with those who have been affected by the welfare-to-workfare policies and war-on-drugs-era sentencing laws of the 1980s and 1990s, prisons are also an example of the process of privatizing government institutions and insuring that those institutions create profit for private investors, making the neoliberal state an agent in this wealth redistribution. The process of regulatory capture, where special interests are able to control the agencies that are supposed to be regulating them in the public interest, illustrates this point. While the market dictates the scope of what is possible for state institutions that are beholden to government funding, the market also creates the conditions, during periods of financial crisis, that lead to the bankrupting of state institutions through austerity measures and the privatization of these public assets.

Europe has also been subjected to the establishment of neoliberalism through financial coercion; however, the European case presents us with an instance of unprecedented democratic subversion on behalf of international capital. This is not to say that the establishment of neoliberalism has been imposed from the outside with no domestic encouragement, but rather that Europe presents us with a particular case of an alliance between the bourgeoisie of individual European nation-states and their counterparts in international institutions such as the European Union (EU) and the European Central Bank (ECB). The rise of the political party Syriza in Greece and the election of Alexis Tsipras as prime minister, while nurturing a cautious hope, has also shown the extent to which the democratic aspirations of the citizens of Greece are sabotaged for the benefit of financial interests represented by the European Commission, the ECB, and the International Monetary Fund. The sovereignty of European countries is being attacked by advocates of neoliberalism under the guise of EU and ECB policy. In Italy, the technocratic government of Mario Monti was appointed without an election following the resignation of Silvio Berlusconi. Meanwhile in Ireland, the ECB held the democratically elected government in a stranglehold by attaching a series of austerity conditions to any bailout agreement. In practice, democratic demands must be made within the tight parameters that have been established by bankers, making a mockery of democracy itself.

The manifestation and maintenance of neoliberalism in Europe can be understood through the changing notions of citizenship in European countries. While at one time the citizenry was the sole constituency, a new group has evolved that claims dominance over the nation-state: creditors. According to the German political economist Wolfgang Streeck, in his work *Buying Time: The Crisis*

of Democratic Capitalism, the growth of creditors has placed a strain on the state, allowing unelected and anti-democratic authorities to regulate how the state handles its relations with its citizens, and defining the nature of state-society relations. The introduction of this “constituency” of opposing interests into the political equation holds the polity of Europe within a loop. On the one hand, the government is supposed to be representative of the people, while on the other, international forces are recognized as citizens and therefore claim a voice in how the government conducts its business. While the neoliberal state was imposed through financial coercion, it is maintained through the creation of new political constituencies.

Conclusion

By blending the state theories of Miliband and Poulantzas, we are able to see the neoliberal state in a multidimensional form. It is not solely the result of the decisions of those in power, but also a complex system that constructs its own acquiescence. The neoliberal state is a qualitatively distinct form of the capitalist state. Its authoritarianism is present not only in its unquestioned defense of the interests of capital, but also in the way that it actively seeks to shape society to be more favorable to its goals. Peripheral countries have borne the burden of this violence as their position within the world system is secondary and practically dispensable. Core countries require a much more skilled intervention through the introduction of reforms and the transformation of institutions to solidify obedience in the form of the market society. Austerity, understood as a social-historical force, is the tool of the neoliberal state to subvert democracy and promote authoritarianism.

Footnotes