Self-Extinction of Neoliberalism? Don’t Bet on It.

written by Gilbert Achcar | April 24, 2020

For the second time since the turn of the century, governments in North America and Europe are intervening massively with public funds and in conjunction with central banks to bail out entire sectors of the economy and prevent a general economic collapse. The ongoing rescue operations necessitated by the Covid-19 pandemic has already reached a much higher scale than the one deployed against the 2007–08 financial crisis. These operations clash with the basic tenets of neoliberalism in that they constitute a massive regulatory intervention by the state in reining back the market, whereas deregulation and market “survival of the fittest” are central to neoliberal ideology.

They also clash with fiscal austerity, but the latter precept is not common to all neoliberal governments. It is a sacrosanct principle in Europe, where British neoclassical neoliberalism blended with German ordo-liberalism. But it is not part of a neoliberal consensus in the United States, where paradoxically the Democrats who used to be accused of Keynesian “tax and spend” by the Republicans have become the champions of fiscal discipline in the neoliberal age, while the latter have developed since Ronald Reagan an original policy of “cut taxes (for the rich) and increase (military) spending” that has resulted in huge federal deficits.

The fact remains though that Western neoliberal governments violated their own doctrines twice—the second time on a much-expanded scale—on the occasion of two successive crises of a magnitude warranting the label affixed to each of them, in turn, of being “the worst since the Great Depression” that began in the United States in 1929. The ongoing Great Lockdown, the nickname that the IMF adopted to designate the huge economic crisis resulting from the consequences of the Covid-19 pandemic, has already sunk to far lower depths than the Great Recession, the name that the IMF started using in 2009 for the previous crisis. The crucial question is now: when will the current crisis reach its bottom and how long after that will it take the world to recover from it?

The magnitude of the ongoing economic disaster is such that it has revived and boosted the hope that it will lead to a major global shift in economic policies and priorities. In this connection, Naomi Klein quotes from one of the main enemies of Keynesianism and key contributors to the neoliberal shift: Milton Friedman. At the beginning and end of a video that she recently produced on “Coronavirus Capitalism—and How to Beat It,” she uses the same quote from Friedman’s 1962 book *Capitalism and Freedom* that she already used twice in her book *The Shock Doctrine* (pp. 6, 140): “Only a crisis—actual or perceived—produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around.”

Whereas Klein had used that quote in the book as a clue to what she called the “shock doctrine,” she

quotes it approvingly in the video, commenting that "Friedman, one of history's most extreme free market economists, was wrong about a whole lot, but he was right about that. In times of crisis, seemingly impossible ideas suddenly become possible." The notion that progressive views such as those advocated by Klein and Bernie Sanders have been vindicated by the crisis has become widespread indeed— even in the *Financial Times* where associate editor Janan Ganesh wrote a 18 March piece entitled "The Sanders worldview wins even as Bernie loses." A day before, the British pro-Conservative magazine *The Spectator* was inviting Boris Johnson to "borrow from Corbyn's playbook."

For anyone who remembers the previous economic crisis, this must trigger a sense of déjà vu. The expectation then was quite stronger actually although the present crisis is much bigger, for the Great Recession was the first major global shock of the neoliberal age and the occasion for the first resort by neoliberal governments to massive state intervention in reining back the crisis. *Newsweek* came out in February 2009 with a cover proclaiming "We are all socialists now." Rereading it today is quite amusing: it starts by quoting "Indiana Congressman Mike Pence, the chair of the House Republican Conference and a vociferous foe of President Obama's nearly $1 trillion stimulus bill" and his host on Fox News, the epitome of truly fake news, who described the bill as "socialist."

The *Newsweek* article commented that this accusation "seems strangely beside the point. The US government has already—under a conservative Republican administration—effectively nationalized the banking and mortgage industries." It went on cultivating the paradox: "History has a sense of humor, for the man who laid the foundations for the world Obama now rules is George W. Bush, who moved to bail out the financial sector last autumn with $700 billion. Bush brought the Age of Reagan to a close; now Obama has gone further, reversing Bill Clinton's end of big government."

That illusion was based on a confusion between a pragmatic and temporary borrowing from the Keynesian playbook, to paraphrase *The Spectator*, and a radical change in long-term economic and social policies. It didn't last long at the time, as the FT's Ganesh could not fail to note:

> We are in the early stages of one of history's periodic discontinuities in economic thought. The sharpest, perhaps, since the OPEC oil crises that elevated the free-marketeers in the 1970s. Readers will suggest the crash in 2008, after which a biography of John Maynard Keynes announced the "return of the master". Well, it was fleeting. Before long, there were fiscal retrenchments around the western world. In the US, there was the Tea Party movement, the neutering of President Barack Obama by a Republican Congress, and his successor's raid on the administrative state.

"This time feels different," added Ganesh. But that itself is a recurrent feeling. The most recent instance occurred shortly before the outburst of the pandemic, when Joseph Stiglitz, the well-known former Chief Economist of the World Bank, heralded (after countless others) the "end of neoliberalism". This time feels different, Stiglitz too could have written as he asserted that "if the 2008 financial crisis failed to make us realize that unfettered markets don't work, the climate crisis certainly should: neoliberalism will literally bring an end to our civilization."

Understandably, the higher acuteness of the ongoing Covid-19 economic crisis, although it is of much lesser historic significance than the climate crisis, has led to a lot of new obituaries of neoliberalism—all of them, alas, quite premature. A zealous neoliberal contributor to *Forbes* business magazine confused them with obituaries of capitalism in lamenting that "left-wing intellectuals are thrilled," thus blaming them for what he believed to be Schadenfreude. He acknowledged nonetheless that the left critique of neoliberalism (capitalism tout court in his understanding) has gained ground over the years, calling fellow neoliberals to be "extra vigilant":

> Twelve years ago, anti-capitalists succeeded in reframing the financial crisis—wrongly—as a crisis of capitalism. The false narrative that the financial crisis is a result of market failure and deregulation has since become firmly established in the minds of the population at large. And now left-wing intellectuals are again doing their utmost to reframe the corona crisis to justify their calls for the all-powerful state. Unfortunately, the chances that they could succeed are very high indeed.

Was this fervent neoliberal over-pessimistic about the advent of the "all-powerful state"? Not quite in the view of David Harvey who concluded his long piece posted on *Jacobin* on 20 March with a rather surprising dystopian prospect—not the prospect of a socialist welfare state, but that of a Trumpian Behemoth:

> the burden of exiting from the current economic crisis now shifts to the United States and here is the ultimate irony: the only policies that will work, both economically and politically, are far more socialistic than anything that Bernie Sanders might propose and these rescue programs will have to be initiated under the aegis of Donald Trump, presumably under the mask of Making America Great Again. All those Republicans who so viscerally opposed the 2008 bailout will have to eat crow or defy Donald Trump. The latter, if he is wise, will cancel the elections on an emergency basis and declare the origin of an imperial presidency to save capital and the world from "riot and revolution."

A week later, Costas Lapavitsas followed in Harvey's footsteps in contradicting unwarranted left-wing optimism, albeit with a less apocalyptic scenario and no illusions about the end of neoliberalism being in sight:

> The shibboleths of the neoliberal ideology of the last four decades were rapidly swept aside, and the state emerged as the regulator of the economy commanding enormous power. It was not difficult for many on the Left to welcome such state action, thinking that it indicated the "return of Keynesianism" and the death knell of neoliberalism. But it would be rash to come to such conclusions.
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> For one thing, the nation-state has always been at the heart of neoliberal capitalism, guaranteeing the class rule of the dominant corporate and financial bloc through selective interventions at critical moments. Moreover, these interventions were accompanied by strongly authoritarian measures, shutting people inside their homes *en masse* and locking down enormous metropoles. … The colossal power of the state and its ability to intervene in both economy and society could result, for instance, in a more authoritarian form of controlled capitalism in which the interests of the corporate and financial elite would be paramount.

We stand again facing the two polar opposites of optimism and pessimism, utopia and dystopia, between which the radical left has traditionally swung. The truth is that these are primarily projections onto the future of individual and/or collective dispositions that themselves swing according to shifting political experiences. Thus, the mood among the US left certainly shifted considerably from the eve of Super Tuesday on 3 March to the following day, in the aftermath of Biden's securement of victory in the Democratic primary—as did the mood among the British left between the eve of 12 December 2019 and the following day, in the aftermath of Boris Johnson's electoral triumph.

Both utopia and dystopia are useful components of the left's worldview, nonetheless, in that they sustain the magnetic poles of pessimism and optimism, caution and voluntarism, the anxiety of a resumption of the fascistic past and the hope of a truly democratic socialistic future, which motivate

those who strive to change the world into a better and fairer place. The point at which the cursor eventually stands in the real world on the long range that separates utopia from dystopia is not determined by objective conditions though. These constitute only the parameters within which class and intersectional struggles must proceed. Major shifts in the realm of governmental politics are determined above all by social *struggle* in the context of the existing circumstances.

Here is indeed where Milton Friedman got it wrong. When crisis occurs, the actions that are taken *do not* "depend on the ideas that are lying around". To be sure, the fight around ideas translated into concrete policy proposals is important. And the political-economic measures that end up being implemented are certainly related to the ideas that prevail—not in society at large, however, but among the social group that steers the helm of government. The analogy between the shift away from the postwar Keynesian consensus into neoliberalism and what Thomas Kuhn called a "paradigm shift" terminates at this point. For, unlike scientific revolutions which are the result of advances in knowledge, paradigm shifts in the economy are not the product of some collective—theoretical or even merely pragmatic—intellectual decision.

As Ernest Mandel put it in 1980 (1st edition; pp. 77–8 of 2nd edition) at the onset of the neoliberal age, in his Long Waves of Capitalist Development:

> The turnabout of academic economics toward the anti-Keynesian counterrevolution was not so much a belated recognition of the long-term threats of permanent inflation. These threats had been well known long before Keynesianism lost its hegemony among economic advisors of bourgeois and reformist governments. It wasn't even essentially a product of the unavoidable acceleration of inflation… *It was essentially a product of a basic switch in class struggle priorities of the capitalist class.*
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> The monetarists' "anti-Keynesian counterrevolution" in the realm of academic economics is nothing but the ideological expression of this changed priority. Without the long-term restoration of chronic structural unemployment, without the restoration of the "sense of individual responsibility" (i.e., without severe cutbacks in social security and social services), without generalized austerity policies (i.e., stagnation or decline in real wages), there can be no sharp rapid restoration of the rate of profit: That is the new economic wisdom. There is nothing very "scientific" about it, but there is a lot that corresponds to the immediate and long-term needs of the capitalist class, all references to objective science notwithstanding.

The neoliberal paradigm shift was enabled by a steady deterioration in the balance of class forces in Western countries in the course of the 1970s, with unemployment on the rise since the 1973-75 recession and the victorious onslaughts on the labor movement led by Ronald Reagan and Margaret Thatcher in the early 1980s. The degree to which the "anti-Keynesian counterrevolution" has been implemented since then in different countries depends not on intellectual differences, but on the balance of social forces in each country. For a timely illustration with regard to public health, it is sufficient to compare Britain and France, two countries with roughly equal populations and GDPs.

The range of health costs is similar in both countries, far from the extravagant costs that inflate US health expenditure. If we take average annual physician compensation as an indicator, it is currently in US dollars, 108,000 in France and 138,000 in the UK (compared to 313,000 in the US). Registered nurses in France and the UK get roughly equal annual salaries on average. Successive neoliberal governments in France have been criticized for trying to shift part of health expenditure onto the patients, and yet France remains in a much better position than the UK with regard to public health.

According to OECD data, health expenditure by government and compulsory schemes has

fluctuated, during the past decade, between 8.5 and 9.5% of GDP in France compared to between 6.9 and 7.8% in Britain. From 2010 to 2017, France has dedicated 0.6 to 0.7% of its GDP to investment (gross capital formation) in its healthcare system every year as against 0.3 to 0.4% for the UK. It is thus not surprising that the number of hospitals in 2017 was over 3000 in France as against less than 2000 in the UK, with a total number of hospital beds nearing 400,000 in France compared to close to 168,000 in the UK. This number kept going down in the UK over the last decade under Tory-led governments. As for the number of physicians, it was more than 211,000 in France in 2017 as against 185,700 in the UK. There were 10.8 practicing nurses per one thousand inhabitants across the Channel compared with 7.8 in Britain.

These figures show how much it was hypocritical and deceitful for Boris Johnson's Brexit campaign to use the NHS as its central argument and thus lay the blame for the poor state of the British health system at the EU's door. Yet, the difference in the state of public health between France and the UK is not due to ideological differences between rulers on either side of the Channel. It is the much greater social resistance in France, and nothing else, that has prevented the country's successive governments from going further down the neoliberal road.

In the UK, where wholesale privatization of public utilities—such as what the Conservatives managed to do in the sectors of energy and transport—was not possible for electoral or economic reasons, different tactics were used that were met with too little resistance. In public health, it was a reduction of public spending coupled with inducement of the richest layers of the population out of the public service into private health schemes, in order to put progressively in place a two-tier health system, like in the USA. In higher education, this resulted in managerial privatization (corporatization) by way of replacing public funding with a massive increase in tuition fees, thus creating down the road a generation that is entering professional life burdened by significant debt, again like in the USA.

The outcome of the present pandemic-related economic crisis will likewise be determined in every country by the balance of local social forces in the context of the global balance. The most likely immediate outcome will not be one of the two opposite alternatives of a spontaneous post-Keynesian abandonment of neoliberalism or a Trumpian Behemoth. It will rather be the attempt by neoliberal governments to shift the burden of the huge debt currently incurred onto the workers, as they did in the wake of the Great Recession, depressing the people's purchasing power and propensity to spend, thus leading the world into a major aggravation of the current secular stagnation, as Adam Tooze warned.

The historian rightly concluded: "It makes sense to call instead for a more active, more visionary government to lead the way out of the crisis. But the question, of course, is what form that will take and which political forces will control it." That is the question, indeed. With our lives shattered by the ongoing dual crisis and with the economic crisis likely to long outlast the pandemic, what is most immediately at stake is to determine who is going to pay for the huge human and economic cost of the crisis: those who are responsible in the first place for the amplitude of that cost, through decades of neoliberal dismantlement of public health and the welfare state and prioritization of financial profits, or the rest of us, i.e. the vast majority of the people?

We can safely predict that neoliberals will be unanimous in increasing public health expenditure, not without making sure to benefit their health-manufacturer friends. They will do so, not because of a sudden conversion to the virtues of the welfare state or because they care for the public, but because they dread the economic consequences of a new pandemic or a second round of the current one. The point is that they will be naturally inclined to do so at the expense of other aspects of the public interest, such as education, pensions, or unemployment benefits, while making the wage-earners pay—by measures such as a pay freeze or even pay cuts—the cost of getting the economies

back to business as usual.

The most urgent struggle is therefore to prevent them from doing so in the way French workers stood against their neoliberal governments' onslaught on their incomes and pension schemes in 1995 and 2019, i.e. by resorting to the general strike or the threat thereof. This fight will be crucial in preparing the ground for a defeat of the neoliberals at the hands of social and political forces such as those that have been standing behind the trade-union movement in France, the Labour Party in the UK, and the Sanders campaign in the US. It is only then that an enduring termination of neoliberalism will occur.