What Is 'Neoliberalism', and How Does It Relate to Globalization?

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The scholarship on economic neoliberalism, its definition, proliferation, and effects, has been dominated by authors who are highly critical of the concepts underlying morality and effects on society (Boans and Gans-Morese 2009; Thorsen 2009). These authors argue that "[t]here has everywhere been an emphatic turn towards neoliberalism in political-economic practices and thinking since the 1970s" (Harvey 2005:2-3) and that neoliberalism has "become hegemonic as a mode of discourse […] to the point where it has become incorporated into the commonsense way we […] understand the world" (*Ibid.* 2007:23). Similarly, these authors argue that neoliberalism is the main driver of globalization and that globalization itself can be seen as both the effect of, and the move towards, global neoliberalism (Litonjua 2008). Economic neoliberalism is an economic theory and an ideological conviction that supports maximizing the economic freedom for individuals and thus reducing the amount of state intervention to the bare minimum. In this regards, it does advocate the elimination of government-imposed restrictions on transnational movements of goods, capital and people (Harmes 2012: 64-9; Cohen and Centeno 2006:36). However, although these aspects are considered important aspects of globalization, this essay argues firstly that globalization is a much richer and multi-dimensional process that extends beyond transnational economic transactions. Secondly, the essay argues that evidence for the proliferation of neoliberalism, although often conceptualized correctly by the 'critical' literature, is sparse. Thirdly, this essay argues that there is little support for assuming that there is causation, or even a correlation, between neoliberalism and globalization. The lack of evidence for a neoliberal transition has been noted by Cohen and Centeno (2006:36-7) who argue that "available data suggests that the policy and macroeconomic changes realized under the neoliberal policy regime are more complex than is often assumed". However, unlike these authors, this essay argues that the absence of neoliberal policies worldwide implies that the world may in fact not have undergone a neoliberal transition. Lastly, this essay will not engage with ethical discussions on the effects of either neoliberalism or globalization.

The essay proceeds by defining the concept of neoliberalism and differentiating it from the various other strands of liberal economic theory. This section finds that economic neoliberalism ought to be considered a fairly 'extreme' form of liberalism in its support for a minimal state. This section also provides clarification to the concept of globalization, its dimensions, historical lineage as well as the main features of the contemporary process of globalization. The second and third part of the essay examines the empirical support for the argument put forth by the 'critical' literature that there has been a global neoliberal transition and that this has facilitated globalization. The second part assesses the emergence of domestic neoliberal policies worldwide and finds that although there is evidence that countries have adopted liberal economic policies since the 1970s, there is little evidence to argue that countries have undergone a clear neoliberal transition. The last section of the essay addresses neoliberalism in relation to globalization and argues that globalization has been facilitated by numerous technological and political developments, few of which can be tied directly or even indirectly to economic neoliberalism.

Authors who are 'critical' of the concept's attractiveness and effects have come to dominate the scholarship on neoliberalism (Boas and Gans-Morse 2009:139; Thorsen 2009:2). This literature normally defines neoliberalism as a collection of economic policies supported by an ideological commitment that argues for the reduction of state-intervention in the economy and a promotion of *laissez-faire* capitalism in order to promote human well being, economic efficiency (Kotz 2000:64), and personal freedom (Smith 2012; Hall 2011:706-8; Litonjua 2008:259-60;

Harvey 2005:2-7). Critical writers often trace the ideological lineage of neoliberalism back to the Chicago School, the Austrian School, the Mont Pélérin Society (Davidson 2004/05:209) and the writings of Milton Friedman, Fredrich von Hayek, and James Buchanan (Henig 1989/90:653, 656). Policies following this line of thought would then entail a reduction or elimination of trade barriers and capital controls, as well as “redistributive taxation and deficit spending, controls on international exchange, economic regulation, public goods and service provisions, and active fiscal and monetary policies” (Centeno and Cohen 2012:318). However, the ‘critical’ literature is often more concerned with critiquing the effects of neoliberal doctrine, than providing clear conceptual definitions (Boas and Gans-Morse 2009:138; Thorsen 2009:3).

The primary problem with this definition is that it fails to differentiate economic neoliberalism from other forms of liberal economic theory such as neoliberal institutionalism, liberal internationalism as well as classical economic liberalism itself. These theories all support the central features associated with neoliberalism mentioned above but differs in their ethical assumptions and the perceived amount of appropriate state intervention in the economy. Classical liberal theory contains features from all the subsequent strands of liberal thought. These subsequent theories could then be considered various branches developed from classical liberal theory. Economic neoliberalism is primarily concerned with maximizing individual liberty the freedom of choice. This implies that the state should assume a highly minimal and purely regulatory form and should refrain from most forms of economic intervention, even in the face of market mechanisms leading to reduced economic efficiency (Howlett, Alex and Ramesh 1999:27; Thorsen 2009:15; Cordato 1980:396; von Hayek 1979). Nevertheless, the state has an important role to fulfil in securing private property rights and contract enforcement (Lindbeck 1987:3). Neoliberal institutionalism, on the other hand, advocates maximizing total economic gains. The theory believes that this can best be achieved by relying on automatic market mechanisms. However, it can allow a more interventionist government in order to correct inefficient market failures and detrimental externalities. Together with liberal internationalism it is also concerned with achieving peaceful relations internationally by promoting economic interdependence and creating international regimes and institutions (Harmes 2012:62; Held and McGrew 2002.101-2). Thus, where other strands of liberal economic theory can support state intervention in order to promote economic justice and correct market failures, neoliberalism firmly opposes such policies, even where they may contribute to increased aggregate economic gains. The ‘critical’ literature often fails to acknowledge this difference, even when it explicitly traces the neoliberal lineage back to the *laissez–faire* theorists. The most common conflation is between economic neoliberalism and neoliberal institutionalism. This could arise due to the terminological similarity and the superficial similarities in policy between these approaches. However, it is crucial to note that economic neoliberalism supports a relatively ‘extreme’ form of individual economic freedom whereas neoliberal institutionalism is more moderate in relation to taxation and macroeconomic intervention.

One problem that arises from the lack of conceptual rigour is that any policy that liberalizes the domestic economy can be seen as a tendency towards a minimal state. Another problem with this theoretical conflation is that it has led to the view that reductions in trade barriers and capital controls, elements considered fundamental to the proliferation of economic globalization, constitute evidence for the fact that globalization is primarily driven by neoliberal doctrine (Colás 2005:73; Kotz 2000:76). As Litonjua (2008:254) argues, “globalization is the global spread of the economic system of capitalism. Promoted by the ideology of neoliberalism, the goal is a wholly deregulated global market society”. However, if more moderate forms of liberalism are the drivers of globalization, it is possible that globalization is not a product of, or movement towards, a completely ‘deregulated’ global economy.

In addition, Litonjua’s definition of globalization is exceedingly narrow. Firstly, globalization is not *one* process driven by a hegemonic class committed to an extreme for of economic liberalism. Instead, it is more fruitfully conceptualized as “a process (or a set of processes) which embodies a transformation in the spatial organization of social relations and transactions” (Held *et al*. 1999a:16). More specifically, it entails increased and swifter interconnectedness and synchronization of social activities across territorial dimensions (deterritorialization) (Sheuerman 2010). In practice, its elements include increased international and cross-territorial communications and movement of goods and people. This has led Therborn (2000:154) to argue that globalization means the “tendencies to a world-wide reach, impact, or connectedness of social phenomena”. Secondly, globalization does not, and has not, affected the various social features and institutions of society equally or simultaneously throughout history. Specifically, Mann (2013a:1-5; 2013b:928) argues that there are four, or five, main areas of globalization: ideological, economic, military, political, and geopolitical. These areas function relatively autonomously or 'orthogonally' to one another, meaning that they "interact but not in a systematic way". As such, globalization cannot be considered a unified process aimed at achieving a specific goal. Thirdly, globalization is a phenomenon that has existed throughout history, propelled by political and technological factors. Nevertheless, various 'waves' of globalization, and reductions in globalization, may be distinguished by the level and extent of global deterritorialization and interconnectedness. As such, it cannot be easily attributed to a single political process. Therborn (2000:163-4) argues that presently, the world is experiencing a sixth wave of globalization which has been facilitated specifically by political developments that include a reduction in economic protectionist measures, lower transportation costs, as well as the rise of new, cheaper, and more easily available Information and Communications Technologies (ICTs) such as the Internet (Naím 2009:29). It is frequently argued that the contemporary era of economic globalization is characterized by increases in international trade relative to world GDP, and the rise of Foreign Direct Investment (FDI) and Multinational Corporations (MNCs). FDI is the act of buying companies or production facilities in a different country (Cohen 2007:37-8). As such, FDI "is what MNCs *do* to become MNCs" (*Ibid.*:38)

Hence, we see that a reduction in protectionism, which is associated with neoliberalism but also the other strands of liberal economic theory, is considered to be related to the present form of globalization. In order to assess whether or not the current wave of globalization is a product of economic neoliberalism *specifically*, it could be useful to assess countries' commitment to neoliberal doctrine. Consequently, although globalization cannot in anyway be seen as synonymous with neoliberalism, it could in fact be a product of neoliberalism if this theory has instigated the political developments that have facilitated the current wave of globalization. This is the argument put forth by the 'critical' literature. The predominant account of the emergence of neoliberal policies argues that a series of economic crises during the 1960s and 1970s led to the denouncement of more interventionist state policies such as 'Keynesianism' or 'embedded liberalism'. This shifts was notably instigated by the Thatcher and Reagan administrations, in the U.K. and the U.S. respectively. Ostensibly, the policies by these governments where then transported globally, either forcefully or through hegemonic discourse, by the International Monetary Fund's (IMF) 'structural adjustment programs' and the formulation of a list of economic policy propositions known as the 'Washington Consensus' (Centeno and Cohen 2012:318-21; Mueller 2011:387, 391-7; Litonjua 2008:160; Harvey 2007:23-4; Harvey 2005:3, 11-5; Kotz 2000:76). However, Williamson (2009:7, 14-5), the author of the 'Washington Consensus' firmly opposes the view that the content of the list is 'neoliberal' and argues that it was never his intent to advocate a total and complete reduction of state intervention in the economy. Nevertheless, Davidson 2004/05:209-10) argues that the list could be considered neoliberal due to the fact that in the long run, it would lead to a neoliberal restructuring of society. Passing verdict on this debate is difficult due to the scope for different interpretations, as illustrated by Davidson's argument. Furthermore, William's original intention is largely irrelevant if the 'Washington Consensus' has in fact led to an adoption of, or a move towards adopting, neoliberal policies worldwide.

Harvey argues that the 'Neoliberal' revolution led to a wave of privatization of State Owned Enterprises (SOE) starting in the 1970s (Cohen and Centeno 2006:32-3). SOEs are companies where the state owns or controls a substantial part of the enterprise. Privatization is a loose concept but can be identified as the direct sale or the public listing of the entire, or a substantial part, of a SOE (Megginson and Netter 2001:321). Indeed, according to neoliberal theory, SOEs ought to be dismantled due to the constraining effects it would have on individuals' freedoms to conduct business. This is contrary to the other strands of neoliberal theory that argue that relying on market mechanisms are a better way to ensure correct pricing and economic efficiency due to competition (Meginson and Netter 2001:329). Secondly, neoliberals' scepticism to governments' integrity leads them to argue that SOEs can incentivise 'rent-seeking' behaviour by lobbyists, which can lead to corruption. This is also an aspect covered by other neoliberal theory but these strands would potentially allow for more government regulation and control of enterprise if they deem it beneficial for the aggregate national economy. As such, the main difference between economic neoliberalism and other forms of liberal theory is that where the more moderate forms of economic liberalism would be likely to support privatization, economic neoliberalism necessitates it regardless of situational variations. None of the theories specify whether or not the movement should be a short- or long-run process.

The 'critical' literature is correct in asserting that starting in the late 70s and early 80s, the Thatcher government instigated large-scale privatization programs and that, since then, the world has seen an increased amount of privatization (Cohen and Centeno 2006:43-4; Brune, Garrett an Kogut 2004:196). However, Thatcher's government did not show evidence of adhering to a neoliberal ideology. Rather, the implementation of privatization policies is considered to have followed as a pragmatic response to the economic difficulties of the 70s and the need to reduce government expenditure. As such, the policies could be inline with any form of economic liberalism or conservatism (Marsh 1991:459-63). The Thatcher government became a model for the U.S. Reagan administration, which, during the late 1980s, initiated a similar privatization program (Tingle 1988:229-30). However, unlike the Thatcher government, Reagan seemed more inspired by *laissez-faire*, neoliberal doctrine, and anti-government themes. This is evident from his platform, which, according to Henig (1989/90:661) advocated "the need to restrain meddlesome bureaucrats, reduce taxes, unleash the entrepreneurial spirit, [and] provide help to those who help themselves". Furthermore, Henig (*Ibid.*:663) argues that these commitments led to privatization becoming a coherent political strategy. It was not until the late 80s that privatization became a worldwide phenomenon with the bulk of the privatization programs occurring in Latin America, and to a lesser extent in Asia and sub-Saharan Africa before peaking in the 90s with the liberalisation of the former Soviet-block European countries (Meggionson and Netter 2001:323-7). The 'critical' literature attributes this to the ideational hegemony of the U.S. as well as the conditionality of the loans provided by the IMF and World Bank. However, the IMF is clear in its argument that privatization is supported due to its perceived positive impact on economic performance (Brune, Garrett and Kogut 2004:196-9). As such, there is no evidence to support that what the 'critical' literature considers to be two of the three main drivers of global privatization have been driven by neoliberal considerations when they have initiated or advocated privatization.

In addition to privatization, the 'critical' literature argues that a main aspect of the proliferation of neoliberalism has been a commitment to 'dissembling' of the Keynesian welfare state and limiting redistributive taxation (Litonjua 2008:259; Kotz 2000:65). In fact, Smith (2012) argues that "neoliberalism has moved countries closer to adopting social Darwinism. According to neoliberal theory, taxation and redistributive policies are seen as an infringement on personal freedom and government interference with private property. Although the welfare state is considered to be positively associated with other forms of freedom, such as opportunities arising from the availability to health and educational provisions (Lindbeck 1987:4), the mechanisms to sustain the welfare-state are thought to constitute 'theft'. Neoliberal theory, if realized, would thus require the abolition of the welfare state. Nevertheless, in contrast to privatization, evidence for a reduction in redistributive taxation and government welfare provision is highly mixed. Some authors have found no evidence to support the notion that there has been a decline in redistributive taxation while some argue that there is evidence to suggest that worldwide, the size of the welfare state has in fact increased (Meinhard and Potrafke 2012:280; Rudra 2002:414-6). Others find no significant changes (Cohen and Centeno 2006:37, 40-1), while some find that increased exposure to trade has had a negative effect on welfare provisions in both OECD countries (Garrett and Mitchell 2001:147) and sub-Saharan African countries (Rudra 2002:417-20. However, both these developments are attributed to effects from globalization, notably efficiency concerns in OECD countries and 'collective action problems' seen to arise from increased competition in labour intensive industries in sub-Saharan Africa. As such, if there has been a reduction in the welfare state, this has arisen *after* globalization commenced, and can thus not be seen as an independent variable that has affected globalization. Furthermore, a survey over welfare state provisions during the Keynesian epoch reveals that welfare provisions during this time was not as extensive as the 'critical' literature implies (Wincott 2013:812-8; Esping-Andersen 1999:1). This questions the very notion that there is a clear epochal distinction to be drawn between the Keynesian and neoliberal era. Hence, there seems to be no clear empirical grounds to argue that the proliferation of neoliberalism has led, or will lead, to a reduction or dissembling of the Keynesian welfare state.

As such, in summary, two of the main aspects that the 'critical' literature identified as key aspects of the global proliferation of neoliberalism, namely privatization and the abolition of the welfare state, have not been primarily driven by neoliberal doctrine nor have they been inconclusively materialized. This seriously undermines the very argument that neoliberalism has had a profound impact on policymakers worldwide, as well as the idea that neoliberalism has become the hegemonic political ideational discourse. Nevertheless, it is possible that although states have not illustrated a firm commitment to domestic neoliberal ideas, they may still have been influenced by its content in its foreign and trade policies. An important aspect that the 'critical' literature frequently draws attention to when outlining this argument is the importance that International Financial Institutions (IFIs) and the Washington Consensus have placed on the removal of trade barriers and capital controls in an attempt to liberalize the global economy (Centeno and Cohen 2012:319; Smith 2012; Cohen and Centeno 2006:45, 51; Kotz 2000:65). These aspects are considered to be highly influential causes of economic globalization, also outside the realm of 'critical' scholarship on neoliberalism. The most often-cited cause of liberalizing trade is the neoliberal institutionalist, or classical liberal theory of 'Comparative Advantage' formulated by Adam Smith and David Ricardo. This theory states that a country can maximize its economic gains by specializing in producing and trading goods that it can produce relatively cheaply. By contrast, the neoliberal argument is individualist and supports free trade on the notion that it provides individualists with increased consumer choices, freedom to conduct business transnationally, and a greater choice of where and with whom one wishes to conduct business.

Since World War II, there has been a clear reduction in trade barriers such as tariffs and quotas (Madsen 2009:404-5). Similarly, the amount of trade worldwide has increased sharply in relations to GDP and output (Hummels 2007:131). This development is often attributed to the efforts made by the General Agreement on Tariffs and Trade (GATT), which became the WTO in 1995, as well as the IMF (Easterly 2005:2-3). Especially the GATT/WTO, whose main purpose was to lower barriers to trade, is considered to have had a profound influence on international trade (Irwin 1995:325-6). However, in a historical perspective, reductions in protectionist measures have often been the result, rather than the cause, of increased international trade (Chase-Dunne, Kawano and Brewer 2000:87-93). Nevertheless, in relations to the GATT, it seems that trade has increased subsequently after each round of negotiation which has contributed to lowering trade barriers (Goldstein, Rivers and Tomz 2007:55-6, 61). This provides good grounds to argue that the GATT/WTO have indeed had an effect on economic globalization. Nevertheless, barriers to trade, notably in agriculture and textiles, are still prevalent. Hence, it is not the case that there has been a complete shift towards a deregulated economy. In addition, there has been a notable reduction in transportation costs since the last half of the 20th century that is seen as a contributing factor to increased trade flows (Hummels 2007:136, 152). Moreover, at a glance, the GATT/WTO's policies seem to be an outcome of neoliberal institutionalist theory as they emphasize economic efficiency and gains from trade that arises due to comparative advantage (The Case for Open Trade). Most importantly, global trade has had a relatively linear increase since the end of World War II and had already reached high levels before the 1970s and the decline of Keynesianism. The advent of neoliberalism can thus not be the cause of increased globalization (Cohen and Centeno 2006:44-6). Lastly, globalization has had an unequal effect on international trading patterns, with a disproportionate increase in trade growth occurring between countries that traded with each other before the 1970s (Helpman, Melitz and Rubinstein 2008:442-3, 447-8). Thus, lack of empirical evidence and the presence of rival explanations makes it highly doubtful whether or not it is possible to establish causality, or even a correlation, between neoliberalism and international trade.

Economic neoliberalism supports FDI for largely the same reasons they support international trade; to ensure individual freedom and increasing choices and options in business conduction (Harwell 2001:16; von Hayek 1965:92). As with international trade, FDI and the presence of MNCs have increased dramatically since the end of the Second World War. However, unlike trade, the boom in FDI seems to coincide with the alleged decline of Keynesianism (Chase-Dunne, Kawano and Brewer 2000:91-2). Despite U.S. outward direct investment starting in the 60s and 70s, it is not until the 1980s that we can perceive a sharp increase in FDI (Cohen 2007:48-52; Cohen and Centeno 2006:51-3). This trend strengthened in the 1990s when other countries, notably China, India and the newly liberalized countries of Western Europe, became large recipients of foreign capital inflows. In fact, in the 1990s, China became the world largest recipient of foreign funds (Cohen 2007:52). The importance of U.S. foreign investment coincides with the Reagan administration, which, as mentioned above, showed signs of a neoliberal inclination. However, China has for the period before, during, and after it assumed a position of global importance in international investment flows, maintained a strong interventionist state (Barboza 2013). Furthermore, the trend in increased FDI also coincides with the emergence of easily available ICTs, which are considered to have played a very important role in facilitating the possibility and coordination of international business transactions (Cohen 2007:52-3). Of course, Harvey (2005:3-4) argues that these technologies did not emerge exogenously of the neoliberal transition. Instead he argues that technological innovations were a direct result of a commitment by neoliberals to expand business transactions and their ideological doctrine globally. He provides no sources for this statement. On the contrary, it is commonly argued that the U.S. firstly developed the Internet for military purposes and not as an instrument for exporting economic theories (Mowery and Simcoe 2002:1383). Lastly, FDI, the emergence of MNCs, and the developments of ICTs, have largely been caused by the efforts of individuals and companies. It is impossible to assess these peoples' ideological commitments or whether or not their choices to expand companies and invest overseas have been driven by a desire to alter the world order. However, from an intuitive perspective, it seems rather more likely that their actions were driven by opportunism and a desire to increase their companies' revenues than a fundamental support for the doctrine of economic neoliberalism.

To conclude, the empirical evidence supports the notion that policymakers and IFIs have been influenced by liberal economic theory. However, there is little empirical evidence to argue that these processes have developed out of a commitment to enhance individual freedom. Instead, the economic policies adopted since the 1970s seem to have emerged as an attempt to increase economic gains. As such, globalization must be considered a separate and autonomous phenomenon from neoliberalism. However, this essay has operationalized a high amount of conceptual rigour in the discussion on neoliberalism. If this was slightly relaxed, which is often done in the 'critical' literature, and the concept of neoliberalism was expanded to include policies that did not specifically enhance individual liberty and instead was utilized to describe market-based economic policies, it is possible to argue that there has in fact been evidence for a neoliberal transition from the 70s and that this has contributed to increased globalization. Nevertheless, the purpose of the 'critical' literature is often to criticize, and warn against, the shift towards a completely deregulated global economy and the decline of the welfare state. Hence, if conceptual rigour were reduced, there would be no theoretical basis for these arguments. Lastly, this essay has demonstrated how a whole genre of literature has emerged which has been based on furthering arguments which are based on poor empirical research and terminological confusion. The 'critical' scholars ought to investigate the foundations for their claims more thoroughly before publishing volumes claiming that globalization is an attempt by rich elites to increase their economic gains at the expense on the majority of the world's population.

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