



THE
STRANGE
NON-DEATH OF
NEOLIBERALISM

COLIN CROUCH

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of Neoliberalism

for Joan

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Colin Crouch

polity

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Contents

<i>Acknowledgements</i>	vi
<i>Preface</i>	vii
<i>About this Book</i>	xi
1 The Previous Career of Neoliberalism	1
2 The Market and Its Limitations	24
3 The Corporate Takeover of the Market	49
4 Private Firms and Public Business	71
5 Privatized Keynesianism: Debt in Place of Discipline	97
6 From Corporate Political Entanglement to Corporate Social Responsibility	125
7 Values and Civil Society	144
8 What's Left of What's Right?	162
<i>References</i>	181
<i>Further Reading</i>	184
<i>Index</i>	187

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Preface

The financial collapse at the turn of 2008–9 seemed to mark a major crisis for the set of economic ideas that have ruled the western world and many other parts of the globe since the late 1970s. Those ideas are generally grouped under the name ‘neoliberalism’. There are many branches and brands of neoliberalism, but behind them stands one dominant theme: that free markets in which individuals maximize their material interests provide the best means for satisfying human aspirations, and that markets are in particular to be preferred over states and politics, which are at best inefficient and at worst threats to freedom.

The financial collapse challenged these ideas because it involved the world’s leading banks. They are profit-maximizers, acting in the purest of markets; how can they possibly not have contributed to the sum of human welfare in all that they did? How could it be that today’s financial markets, the most sophisticated form of the market probably in human history, could run into trouble of such a massive kind, when the most advanced economic theory had demonstrated that unregulated financial markets will be self-correcting? If we have been told, even by governments

themselves, that government is far less efficient than firms in the market, and that the less involved government becomes in the market, the better, why did the banks go to governments for enormous sums of money to bail them out of their difficulties? And why did governments accept their arguments? Is it really true that big banks are ‘too big to fail’, and that governments and taxpayers must rush to help them if they get into trouble? But if that is so, are we not admitting that there are severe limits to what the market can achieve, and that neoliberalism has been found wanting in its central claims?

In 1936 George Dangerfield published a book entitled *The Strange Death of Liberal England* (London: Constable). It tried to explain the sudden collapse in the early twentieth century of the political ideas and political party that had dominated the late nineteenth century in that country. The equivalent task today is, however, *not* to explain why neoliberalism will die following its crisis, but the very opposite: how it comes about that neoliberalism is emerging from the financial collapse more politically powerful than ever. Whereas the financial crisis concerned banks and their behaviour, resolution of the crisis has been redefined in many countries as a need to cut back, once and for all, the welfare state and public spending. And the issue today is not limited to a single country, as neoliberalism is an international, even global, phenomenon. What we have to understand today is, therefore, the strange non-death of neoliberalism.

At the heart of the conundrum is the fact that actually existing, as opposed to ideologically pure, neoliberalism is nothing like as devoted to free markets as is claimed. It is, rather, devoted to the dominance of public life by the giant corporation. The confrontation between the market and the state that seems to dominate political conflict in many societies conceals the existence of this third force, which is more potent than either and transforms the workings of both. The politics of the early twenty-first century, continuing a trend started in the previous one and accentuated rather than weakened by the crisis, has become, not a confrontation at

all, but a series of comfortable accommodations among all three. A central aim of this book is to show why a political debate that continues to be organized around market and state is missing the issues raised by this important phenomenon.

The political power of the corporation is seen most obviously in the extraordinary lobbying activity that takes place, primarily in the United States Congress, but also around many other legislatures and governments. It is also highly visible in the capacity of transnational firms to 'regime shop' when choosing in which parts of the world to locate their investments. But these phenomena are considerably reinforced by further factors. First is the increasing tendency of governments to subcontract delivery of many of their own activities to private firms, which then become involved in shaping public policy. Second is the growth of corporate social responsibility, a process whereby firms take on tasks going beyond conduct of their actual business, in effect again making public policy. Third is the one signalled at the outset: the way in which, far from casting doubt on the role of giant corporations, especially financial ones, in contemporary society, the financial crisis of 2008–9 has served only to reinforce their power.

I discussed some of these issues briefly in my book *Post-Democracy* (Polity, 2004), in which the power of the global corporation appeared as one of a number of factors that I saw as leading our democracy towards becoming something of an empty shell. Further developments in the factors listed above make it necessary to return to the theme, exploring further what happens to democracy and politics when many corporations become not just mighty pressures on, but major insider participants in, the political process. This is something which no economic or political theory defends or advocates in any way; but it is a central reality of our public life.

One consequence is that democracy is joined by the market as a kind of victim. This might seem surprising, as most political debate does not distinguish between the market and firms. But it is precisely in that lack of a distinction that

several of our problems lie, rendering rather outmoded the confrontation between 'state and market' that occupies so much attention. One might talk of a triangular confrontation among state, market and the corporation, but I prefer 'comfortable accommodation'. This is partly because corporate power makes it its business to bind them all together, but also partly because the only alternative to some kind of accommodation would be a rather wretched society, in which at least one of the three was crippled into becoming non-functional. It needs only a little reflection to realize how difficult life would then become.

It is not therefore the purpose of this book to argue that somehow we should rid ourselves of giant corporations. The odd bedfellows of Jeffersonian liberals and Marxists who would have sought such an outcome both belong to an unrealistic past. Instead, this book looks to a fourth force, the busy but small voices of civil society, not to abolish, but to criticize, harry and expose the misdeeds and abuses of the cosy triangle. This in no way promises a different social order from corporation-dominated capitalism, but, provided our societies remain open and vigilant, it can make life far better than states and corporations will do if left to themselves.

Badly, very badly, to misquote Andrew Marvell:¹

*Thus, though we cannot make the corporation
Stand still, yet we will make him run.*

¹ Andrew Marvell (1621–78) ended his poem 'To His Coy Mistress' (a very different context) with the lines:

*Thus, though we cannot make our sun
Stand still, yet we will make him run.*

About this Book

Most literature about subjects of this kind is written from the standpoint of someone showing how the world might be changed, either by the authors themselves if they ever got their chance, or by political leaders whom they hope to address. But very few people are ever in a position to change the world, and among those few are many who would change it for the worse. There is a far, far bigger audience of people who have to cope as best they can with the world they find. It is for them that this book is written. *Post-Democracy* originated in a pamphlet I had written for the Fabian Society, entitled *Coping with Post-Democracy*. The title was simplified for the book, but the intention was the same: how to cope with a world largely beyond the control of ordinary people. The present book is a sequel to *Post-Democracy*. It deals with some overlapping themes, and it is also addressed to those who have to cope.

Also like the earlier book, it is addressed to the general reader and is not an academic study. It does not therefore carry the important burden of references and footnotes necessary to scientific work, but just gives a few general references and ideas for further reading for each chapter.

Some of the chapters are attempts to produce more generally accessible accounts of my own academic work, in particular:

Chapters 2 and 4 draw on my chapter 'Marketization', in M. Flinders et al. (eds), *The Oxford Handbook of British Politics* (Oxford: Oxford University Press, 2009), pp. 879–95. This material is used by permission of Oxford University Press.

Chapter 3 makes use of my chapter 'The Global Firm: The Problem of the Giant Firm in Democratic Capitalism', in D. Coen (ed.), *The Oxford Handbook of Business and Government* (Oxford: Oxford University Press, 2009), pp. 148–72. This material is used by permission of Oxford University Press.

Chapter 5 is based extensively on my article 'Privatised Keynesianism: An Unacknowledged Policy Regime', *The British Journal of Politics and International Relations* 11/3 (2009): 382–99.

Chapter 6 makes some use of my article 'Modelling the Firm in its Market and Organizational Environment: Methodologies for Studying Corporate Social Responsibility', *Organization Studies* 27/10 (2007): 1533–51.

Chapter 7 makes some use of my chapter 'Privates, Publics and Values', in J. Benington and M. Moore (eds), *Public Value: Theory and Practice* (Basingstoke: Palgrave Macmillan, 2010).

1

The Previous Career of Neoliberalism

As we shall consider in more detail below, neoliberalism began its dominance when its opposed predecessor, generally known as Keynesian demand management, entered its own massive crisis in the inflation of the 1970s. If this crisis proved more or less terminal, should we not now expect the end of neoliberal dominance and the emergence of something new following its crisis? No. Keynesianism's crisis led to its collapse rather than to adjustments being made to it, not because there was something fundamentally wrong with its ideas, but because the classes in whose interests it primarily operated, the manual workers of western industrial society, were in historical decline and losing their social power. In contrast, the forces that gain most from neoliberalism – global corporations, particularly in the financial sector – maintain their importance more or less unchallenged. Although it was the behaviour of the banks that caused the 2008–9 crisis, they emerged from it more powerful than before. They were considered so important to the early twenty-first-century economy that they had to be protected from the consequences of their own folly. Most other sectors, hurt by the effects of the crisis, were not protected. The public services fared even worse, being required to take massive cuts in resources. While the very large bonuses paid

to some banking staff became a central issue in the controversy following the crisis, continued payment of bonuses was then justified as being necessary to return the financial sector – and therefore whole nations – to solvency, even though those bonuses depended in part on the contributions of taxpayers to the rescue operation. The financial sector has demonstrated the dependence of the rest of society on its operations – at least in the Anglo-American world which has nurtured this particular form of banking activities. And as it has been protected while other sectors in general and public services are being cut, it will loom larger than ever in the economic structure of those countries.

Before we consider the implications of this situation for neoliberalism's claims to be about free markets, we must first take a closer look at neoliberalism itself: what is it and where did it come from? Then, in Chapters 2–4 we shall examine the standard debate of 'state versus market', and how the corporation emerges as of primary importance from that confrontation, changing its nature in the process. In Chapter 5 we return to study in more detail the shift from Keynesianism to neoliberalism mentioned above and its wider implications; this ends by demonstrating why the corporation emerges as the key institution following the recent crisis. Chapter 6 examines the political contours of societies in which corporations have acquired political centrality, including consideration of the idea of corporate social responsibility. Chapter 7 shifts the discourse and moves to a theme that darts in and out of the preceding chapters: where do values, and in particular those concerning public and collective issues, stand in the relation between market, state and corporation? The final chapter tries to provide some answers to the question: how do we cope with all this?

Neoliberalism: Its Origins and False Start

Many of the words that we today use to describe public life contain the prefixes neo-, new or post-: neoliberal, neoconservative, New Labour, postindustrial, postmodern, post-

democratic. We seem determined to show that we are people busily involved in momentous systemic change, but we are not sure what new state we have entered, so we name ourselves in terms of what we are leaving behind (post- concepts) or hint vaguely at renewal and innovation (neo- concepts). Neoliberalism is one of these. To gain an initial understanding of it, we need to know what liberalism is (or was), and what is meant by the prefix.

‘Liberalism’ is about as slippery as a political term can be. Today it tends to move to the political left as one heads westwards. In Europe, and especially in the former state-socialist countries of central and eastern Europe, it is associated with political parties that stand for the strict application of market principles to economic life, as well as for extensive civil liberties. The former is normally associated with the political right, the latter with the left. In the USA it tends to refer to the political left in general; this shares the European commitment to civil liberties and criticism of any political power exercised by organized religion, but is diametrically opposite to this tradition when it comes to the market. American liberals are likely to believe in government intervention in the economy, the opposite of the usual and historical meaning of the term.

To understand this complexity we have to go back to the seventeenth and eighteenth centuries, when criticism of the combined powers of monarchs, aristocrats, popes and bishops was gathering pace across Europe and, later, North America. These powers did not accept that people in general had rights; only privileges and specified liberties (plural) granted and revocable by the powers themselves. While the struggle was at the level of ideas and for freedom of thought, an alternative power base to those of church and the monarchical state was available in the commercial and, eventually, industrial wealth of the bourgeois classes. The demand by merchants for markets to be freed from the control of secular and religious authorities, who enjoyed the revenues they received for granting trading monopolies, joined the general cry for liberty as a singular, indivisible quality, a human

right that it was in no one's power to grant. In practice, in a world in which existing powers in church, state and land-ownership could not be simply wished out of existence, the pursuit of liberty took the form of seeking various separations: of state from economy; of church from polity; of all of these, and even of family, from moral judgements over how individuals conducted their lives. Through the compartmentalization of life that could be achieved by these separations, the reach of power could be limited and individual liberty achieved.

From the perspective of conservatives, this same process left individuals alone, anomic and without a shared morality, and society fragmented and rudderless. By the end of the nineteenth century bourgeois property-ownership and the associated liberal right to own factories and other bases of economic activity, including that to employ labour, had themselves become sources of domination and power. Workers and others, whose lives could not achieve much separation from the control of employers, now sought liberty from them too. They looked to the gradually democratizing state for counterbalancing power. Social critics also turned their opposition to the increasing dominance of commercial values and money over all areas of social life. The liberal tradition was broken in two.

On the one hand, there was a social part, which concentrated on the search for rights, including the right of the working masses to raise themselves above poverty, and which increasingly and paradoxically looked to liberals' old enemy, the state, for help in that search. These liberals often found themselves in the uncomfortable company of socialists, who wanted to use state power to suppress capitalist property-ownership. But there was also an economic part, which stressed the liberties of property-ownership and market transactions. Liberals of this kind now increasingly found themselves uniting with their old conservative enemies, protectors of the old regime, defending authority and property-ownership of all kinds from attack, particularly from democracy. A democratic state dominated by a propertyless

working class threatened to oppose the separation between economy and polity that was central to both the concept of liberty and the efficient functioning of the market. In a further complication, social liberals, socialists and conservatives would sometimes come together to denounce the triumph of materialist values and absence of moral judgments that capitalism and economic liberalism had brought about. Different strands of liberalism, whether in the form of systems of thought or of political parties, went their separate ways, with different emphases in different parts of the world.

By the time of the Second World War, the whole context of liberalism's original confrontation with the state had changed. During the 1920s the liberal capitalist economy with minimal state intervention seemed to have failed and brought the world to major depression. By the 1930s three alternative approaches to the organization of economic life seemed to offer far more efficiency and capacity to thrive: the communism being practised in the USSR; the fascism of Germany and Italy; and various combinations of government demand management and welfare state initiatives being practised in the USA and the Scandinavian countries, briefly also in France. Different though they were from each other, all made use of the power of the state in a way not envisaged in classical liberalism. After the war, one of these, fascism, was (with some exceptions) crushed. The Soviet state ruled half of Europe with dictatorial powers but, as it seemed at the time, with some economic competence; it was soon to be joined, though in only uneasy and temporary political alliance, by a similar system in the world's most populous country, China. In western Europe, North America, Japan, India and Australasia highly diverse forms of the US-Franco-Scandinavian approach of varied economic and social interventions by a democratic state into a definitely capitalist economy attracted support from virtually all shades of political and intellectual opinion. It seemed that the original liberal vision of an economy governed by the market with minimal state involvement was dead. Liberalism could live

on in its social form as a demand for rights and freedoms – but without that once fundamental component of the demand for the right to own and control property without state interference.

We shall return in a moment to a more detailed account of these state interventions, but first we must see what happened next to ideas of economic liberalism. They never disappeared. Belief in unchallenged property rights, low levels of regulation and low taxes remained extremely attractive to very wealthy people, who were always available to fund economic liberalism's intellectual projects and keep its protagonists going during the lean years. Further, as the truth about the conditions of life and absence of freedom in the state-socialist countries of the east became widely known, there was a constant reminder for all of the dangers of state power. This was particularly strong in the USA, where past legacies of English rule and then rampant political corruption after independence had created general suspicion of the state. This produced a wing of political opinion that identified virtually all government action in economy and society with communism, and sought tough action to root out from public life all people who might be associated with such tendencies. In the 1950s this produced the highly intolerant campaigns on behalf of the US state, led by Senator Eugene McCarthy. The defence of economic liberalism had become highly illiberal. This contributed to the way in which the word liberal in the USA stood on its head, coming to signify support for the welfare state and other government interventions in the economy.

The fight-back on behalf of *economic* liberalism began earlier than this. Before the Second World War had ended, a group of German and Austrian liberals had pondered how to produce an economic order for Germany after the eventual disappearance of Adolf Hitler, an order that would recreate the entrepreneurial bourgeoisie that they saw as being crushed equally by communism, fascism and the interventionist policies of the democratic state. They did not share the belief that all state action was suspect, but saw a role for

government in safeguarding the market economy in which they believed. They saw competition among many firms as central to the efficient functioning of the market, consumer choice, and the maintenance of a bourgeois class that would neither lose its place and be pushed down into an anti-capitalist proletariat, nor acquire the powers of 'big business', the giant corporations that were supporting Hitler. They were concerned that the outcome of the competitive process was usually the elimination of competition itself, as the winners took all and absorbed their rivals, resulting in the triumph of big business. These German liberals were attracted by antitrust law in the USA, which used law (and therefore the power of the state) to limit the share that individual corporations could acquire in a particular market, and thus to protect competition from its own consequences. The system they advocated was not one of unrestrained markets, but of *Ordoliberalismus* – an economic liberalism, whose competitive order would be guaranteed by law. To give the approach the name eventually acquired by its practical embodiment in much of the policy-making of the postwar western Federal Republic of Germany, it sought a 'social market'. In another of the head-standing twists of fate for political terms, this concept, originally part of economic liberalism's fight-back against the interventionist social state, had by the 1980s come to be used to denote the interventionist social state itself.

But these new economic liberals sought a role for the state, more specifically for law, solely in guaranteeing the effectiveness of market forces, not in pursuing other goals. Their ideas spread easily to the USA, where they became known as 'neoliberal', because liberalism as such had acquired such a totally different meaning there. There are now many varieties and nuances of neoliberalism, but if we stay with that fundamental preference for the market over the state as a means of resolving problems and achieving human ends, we shall have grasped the essence.

We must now consider how this return became possible at the level of practical politics rather than just as ideas. This

requires some exploration of the other approaches to social and economic policy that grew up in the decades following the Second World War.

The Social Democratic Moment

Communism or state socialism, fascism and economic liberalism all denote very clear systems of policy direction. The approaches that emerged as their main rivals in the western world slightly before, during or just after the Second World War were more varied, as befits the role they played in finding social compromises among major antagonists, who in turn accepted the impossibility of either ultimate victory over each other or of knowing for certain what policies would be the most successful. It has recently become popular to associate the terms 'social market' and 'social democracy' with these alternatives. That the former is a case of head-standing has already been noted; but it is also partly true of the latter. 'Social democracy' was originally one of the names chosen by anti-capitalist working-class movements in the late nineteenth century. Others were 'socialist', 'communist', 'labour'. All were terms used, more or less interchangeably, by movements which had at some early point adopted policies for the suppression of capitalism and its replacement, at first by state ownership, but eventually, it was hoped, by an amorphous dream of popular ownership that would exclude even the state.

Following the Russian Revolution in 1917 the parties throughout the world that allied themselves to the new leadership of that country more or less all took the name 'communist'. The other terms did not acquire any differentiated connotations until the 1950s, when both the Swedish and German workers' parties, which happened to be called 'social democratic', abandoned the formal goal of superseding capitalism and proclaimed instead that their object was to work within an economy predominantly in private ownership. In 1959 German Social Democrats even adopted the slogan: *'So viel Markt wie möglich; so viel Staat wie nötig'*