

POLS 280:
Politics of Development
and Foreign Aid

Class 5:
Neoliberalism

Presentations

- Sign up here: <https://docs.google.com/spreadsheets/d/1Rn-xQuUDjgDpmtZ1kmpNHkCxQ9VbsGtdDA4Bauxq-qI/edit?usp=sharing>

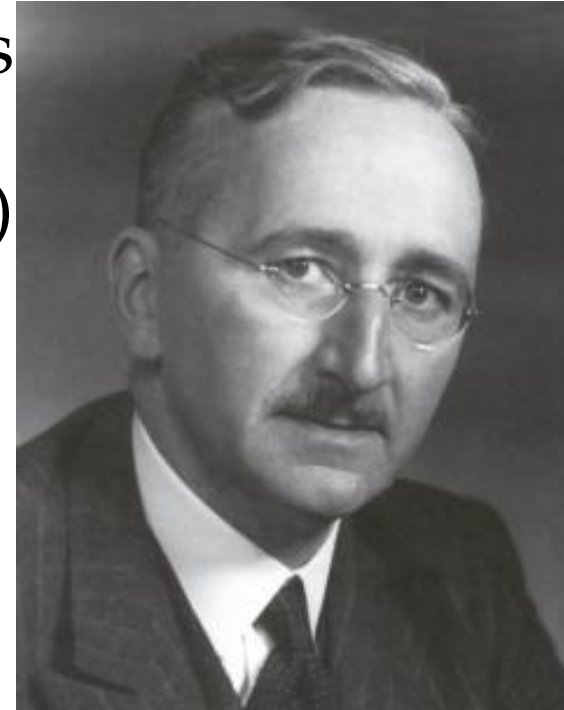
Kahoot!

Recap

- What is modernization theory?

Neoliberalism: historical context

- Failure of state-led economic policies (in the global South intended to hasten the process of modernization)
 - Golden Age of Capitalism / Bretton Woods system ->
 - Breakdown of embedded liberalism
 - Stagflation
 - Debt crisis
- Cold War
- Liberalism + neoclassical economics



Friedrich von Hayek



Milton Friedman

Neoliberalism: historical context



What are the main claims
of neoliberalism?

Neoliberalism

- “Theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade.”

- Harvey, David. 2005. *A Brief History of Neoliberalism*. Oxford and New York: Oxford University Press.

How was liberation of individual freedoms to be achieved?

The neoliberal state according to Harvey

- Responsible for:
 - Creation and preservation of the institutional framework that liberates individual entrepreneurial freedoms and skills
 - Quality and integrity of money
 - Military, defense, police, and legal structures and functions required to secure private property rights and to guarantee the proper functioning of markets
 - Creation of markets where they do not exist
- Tension: market vs. the state



What are the key differences
between neoliberalism
and modernization theory?

Modernization theory and neoliberalism

- Progress is not inevitable and requires support
- Focus on individuals and individual freedom:
 - Harvey: “While personal and individual freedom in the marketplace is guaranteed, each individual is held responsible and accountable for his or her own actions and well-being. [...] Individual success or failure are interpreted in terms of entrepreneurial virtues or personal failings [...] rather than being attributed to any systemic property.”

What are the similarities
between neoliberalism
and modernization theory?

Modernization theory and neoliberalism

- Teleological
- Economy-centric
- Ahistorical
- Apolitical
- Universalistic
- Normative
- Complicated role of the state

What interventions did
neoliberals advocate?

The Washington Consensus

- Fiscal deficits as the primary source of macroeconomic dislocation (inflation, payments deficits, and capital flight) →
- Necessity of limiting public expenditure or increasing tax revenues
- The market should determine interest and real exchange rates
- Necessity of opening economies through liberalization of financial flows (including foreign direct investment), real exchange rates, and imports
- Necessity of promoting competition through economic deregulation and privatization
- Property rights

- Williamson, John. 1990. "What Washington Means by Policy Reform." In *Latin American Adjustment: How Much Has Happened?*, edited by John Williamson. Washington, DC, United States: Institute for International Economics.



Problems with neoliberalism

- Theoretical:
 - Teleological
 - Economy-centric
 - Ahistorical
 - Apolitical
 - Universalistic
 - Normative

Problems with neoliberalism

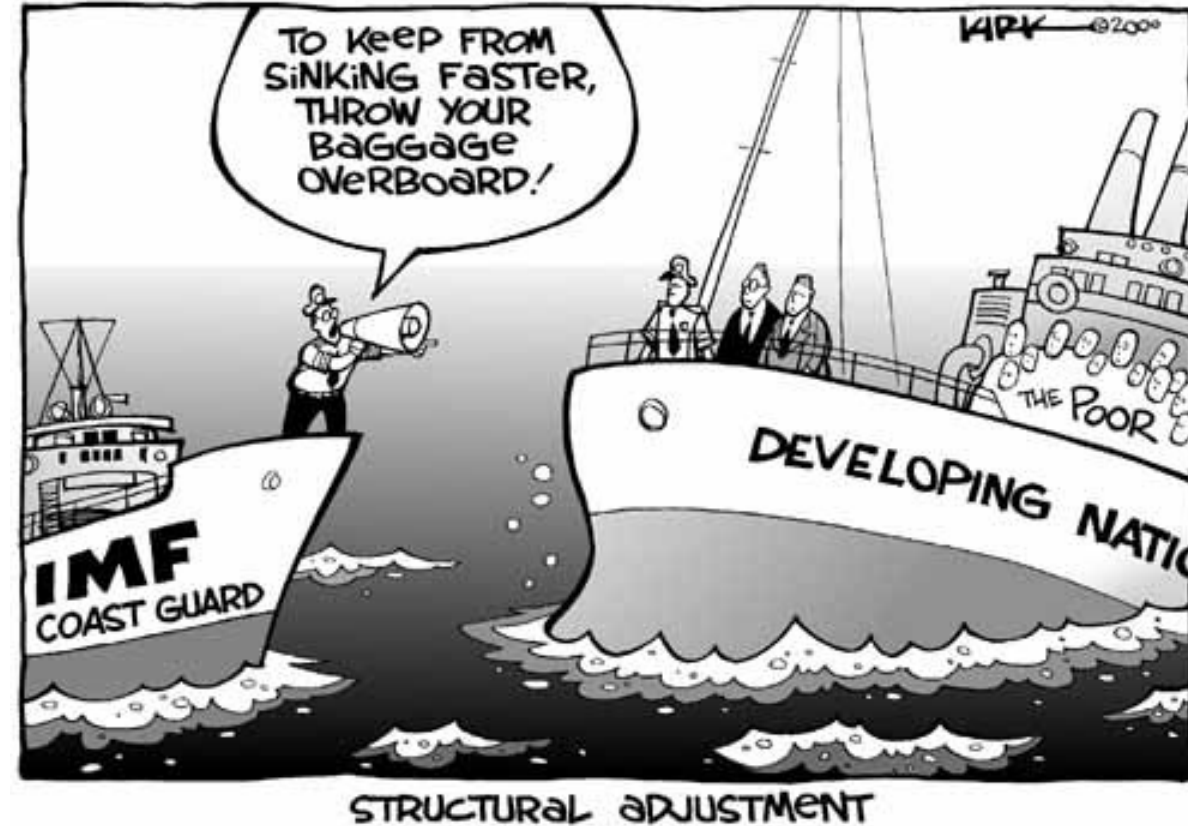
- Theoretical:
 - Disregard for the reality of monopoly power, market failures, asymmetrical information
 - Fetishization of technological change (and assumption that only competitive pressure leads to innovation)
 - Contradiction between the free market and the necessity of the state
 - Contradiction between possessive individualism and the desire for meaningful collective life (individuals are free to choose but supposedly should choose weak voluntary associations rather than strong collective institutions; also, neoliberals prefer government by elites and experts to democracy)

Problems with neoliberalism

- Practical:
 - Preservation of the capitalist social order:
 - Reestablishment of the conditions for capital accumulation
 - Harvey: restoration (or creation) of the power of economic elites
 - Rise of economic inequality
 - Structural adjustment

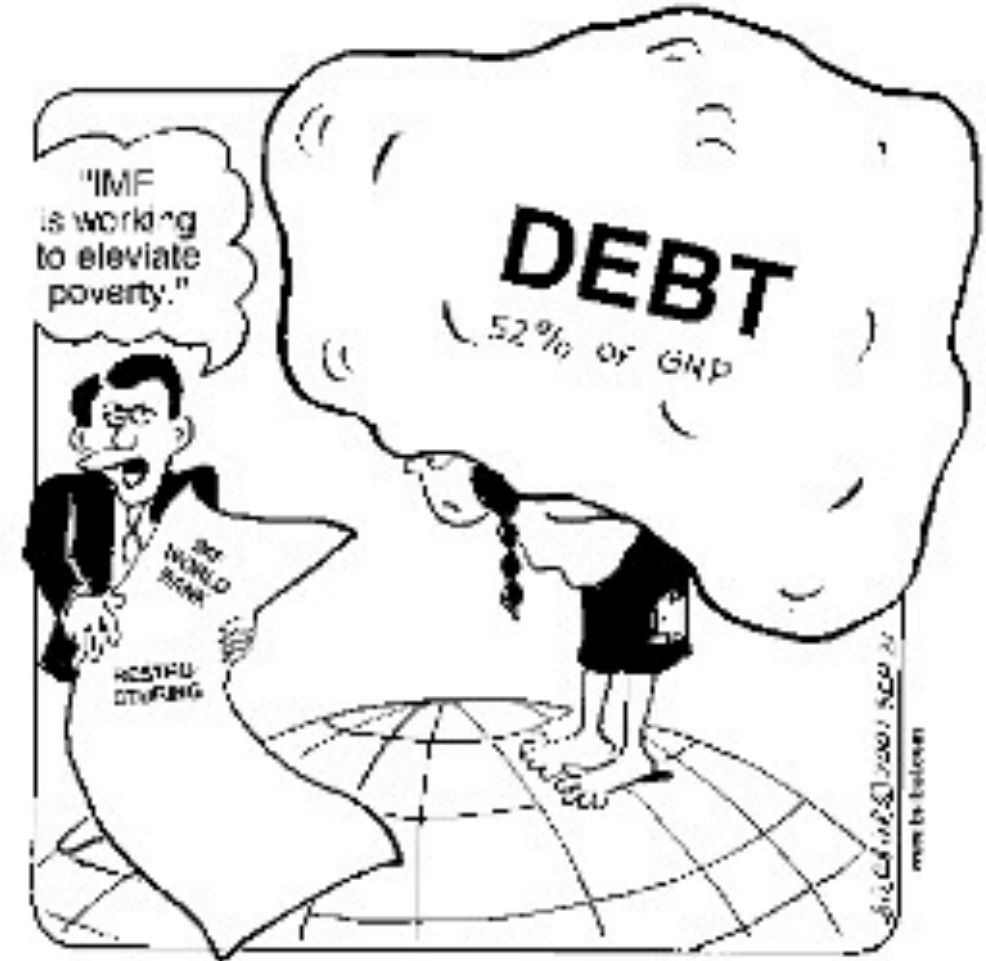
Structural adjustment programs

- Application of the Washington Consensus ideas to the crisis in the global South
- Basic tool: provision of credit in return for reforms
- Primary implementers:
 - IMF: macroeconomic stabilization, short-term loans
 - World Bank: structural adjustment, long-term loans



Structural adjustment programs

- Reduction of deficits and inflation
- Elimination of seignorage and currency devaluation
- Reduction of public spending, including social expenditures and public sector employment
- Comprehensive economic reforms
- Removal of price controls
- Privatization of state-owned banks and enterprises
- Creation of market institutions
- Deregulation
- Trade liberalization
- Encouragement of foreign direct investment



Implementation of structural adjustment programs

Table 2.3. *Policy Reform in Africa: Patterns of Implementation, 1979–1999*

Reform	Degree of Implementation	Probability of Reversals	Comments
I. Stabilization			
a. Fiscal adjustment	mediocre-good	high	Belated progress in mid-1990s Sustainability questionable
b. Exchange rate policy	good-excellent	medium	Early focus of IMF; CFA countries devalue in 1994, maintain fixed rate
c. Monetary policy and external balance	mediocre-good	high	Uneven progress across time; reliance on large aid flow
II. Adjustment			
a. Domestic liberalization	poor-excellent	medium	High variation across cases
– Banking/credit	good-excellent	low	Early focus of adjustment programs
– Investment	mediocre	low	Large gap between de jure and de facto situation
– Export agriculture	mediocre	medium	Prices still set by state, particularly in ex-French states
– Food markets	mediocre-good	medium	Consumer prices liberalized more than producer prices Less continuing regulation in west and Central Africa
b. Trade policy	poor-mediocre	high	Little progress and often subverted in practice.
c. Public enterprise reform	poor-mediocre	low	Privatization quickens in 1990s, biggest Public enterprises remain
d. Civil service reform	poor	low	Consistently deferred, high cost and complexity

Impacts of structural adjustment programs

- Accelerated inflation rates
- Reduction of investment
- Higher food prices
- Lower employment and real wages
- Lower per capita incomes
- Reduction of the quality of public services
- Introduction of user fees for healthcare and education services
- Increased poverty rates
- Poor health, including malnutrition
- Particular impact on women

• Stewart, Frances. 1991. "The Many Faces of Adjustment." *World Development* 19 (12): 1847–64.

SPOT THE DIFFERENCE



ANSWER: 'SPOT THE DIFFERENCE'
10 YEARS OF THE STRUCTURAL ADJUSTMENT POLICY

Concepts and conceptual stretching

- Neoliberalism
- Neoclassical economics
- 'Late capitalism'

Neoliberalism - the ideology at the root of all our problems

Financial meltdown, environmental disaster and even the rise of Donald Trump - neoliberalism has played its part in them all. Why has the left failed to come up with an alternative?



Takeaways

- Another failed explanation of development, but exceedingly influential
- Mostly socially detrimental effects through the imposition of structural adjustment programs—but ‘the root of all our problems’?