

Talking Cents is an ecumenical group charged by the Auckland Anglican Diocesan Council to promote an alternative to current economic and political thought, and to encourage debate within the Church. Ministry units are encouraged to distribute these articles. This article is contributed by David Hall, a member of the Social Justice Group of the Anglican Diocese of Auckland.

What really is neoliberalism?

Most of us concerned about growing inequality and the impact of neoliberalism generally think that it was Milton Friedman and the Chicago School of Economics plus Margaret Thatcher and Ronald Reagan embracing so called “Free Market” that initiated neoliberal philosophy. So, it was with considerable interest that I started to read Quinn Slobodian’s new book “Globalists: The End of Empire and the Birth of Neoliberalism” Harvard University Press 2018. Quinn Slobodian is an Associate Professor of History at Wellesley College, Boston, one of the leading women’s colleges in the USA.

Slobodian’s starting point is the conclusion of the First World War and its impact on the Austro-Hungarian Empire. Most of us are familiar with the Treaty of Versailles, and its imposition of financial sanctions on Germany that ultimately contributed to the rise of the Nazis and the Second World War. But the Treaty of Versailles was only with Germany; there were other treaties covering the Austro-Hungary Empire and the Ottoman Empire. The Treaty of Saint-Germain-en-Laye and the Treaty of Trianon led to the dismemberment of the Austro-Hungarian Empire, replacing it with several independent nations covering Central Europe and the Balkans. The city of Vienna changed from the centre of a large empire governing most of central Europe to the capital of a small country, the Republic of Austria, with a population of around 6.5 million.

Prior to the First World War, the Austro-Hungary and Germany Empires were basically free trade areas. Even beyond these empires there was little in the way of trade barriers, primarily because the British had adopted a “Free Trade” policy in the mid-19th century. This began to change as various countries industrialised and used tariffs to protect their infant industries. Most of the new sovereign countries created out of the Austro-Hungarian and German empires started to impose tariffs in the 1920s.

Around this time a group of economists led by FA Hayek and Ludwig Mises, based in Vienna, concluded that the answer to the planned economy approach, advocated by Karl Marx, was to rely on a free market that should be applied worldwide. They wanted to restore the economic empires of the 19th century without the political structures. Hayek and Mises worked in the Austrian Business Cycle Research Institute advising the

Austrian Government on policies and laws to counter the “business cycle” of boom and bust. They basically concluded that if there were no impediments to the buying and selling of goods (and services) then supply and demand would find its natural equilibrium and the boom and bust cycle would be eliminated. Basically, they wanted a “liberal” and opposed to a “socialist” approach to economic policy. Hence the birth of “neoliberalism”.

But this would require the free flow of goods throughout the world with no barriers. However, at that time, two particular barriers did concern these economists; sovereign countries imposing tariffs on goods and labour unions demanding increased wages. They were particularly concerned about the impact of democratic universal suffrage that was spreading through Europe at that time, as this would lead the governments of sovereign countries to build barriers to protect their manufacturers and hence maintain wages of those that voted them into power.

Most of this group moved from Vienne to Geneva in the late 20s and early 30s to work for the International Chamber of Commerce and the League of Nations. During this time they concluded that economics alone would not achieve a true free market, laws would also be required. Lawyers increasingly become drivers of neoliberal philosophy and policy particularly in the decades after the end of World War Two.

The Bretton Woods Agreement of 1944 led to the establishment of the World Bank and the International Monetary Fund (IMF) and the re-establishment of the link broken at the beginning of the depression, between gold and national currencies. Within the Bretton Woods Agreement was the right of sovereign nations to impose controls on the movement of capital across national borders. This was seen by the Vienna/Geneva school as a major barrier to the Free Market.

Hayek and his colleagues were very influential in the changes that ultimately led to the transformation of the General Agreement on Tariffs and Trade (GATT) into the World Trade Agreement (WTA) which included provisions to settle trade disagreements not just between countries but also between corporations and countries.

Capitalism is seen as the key to the free market and capitalism needs to be protected from sovereign countries that put more emphasis on their citizens welfare. The role of government is considered to be limited by the neoliberal free marketeers. Also regulations that restrict the ability of corporations to do exactly what they want to do should be eliminated.

The Vienne/Geneva school was particularly concerned about the former colonies of the European Empires that came together as the G-77 to oppose any moves in either the United Nations or GATT to restrict sovereign countries from imposing tariffs or nationalising foreign owned corporations. This is broadly summed up by the statement – *World Order depends on the protection of dominium (the rule of property) against imperium (the rule of states)*.¹

They were also suspicious of democracy and saw it as – *a potential threat to the functioning of the market order. Therefore, safeguards against the disruptive capacity of democracy are necessary*.²

This protection was justified because – *Laws are grown not made. Adjudication by judges and scholars is preferable to legislation created by parliaments*.³

It is clear that many of the objectionable parts of recent trade agreements, particularly the TPPA, come out of this philosophy.

The Vienne/Geneva school and many other neoliberal groups were determined to reverse the establishment of “welfare states” in much of the democratic world and the New Deal in the USA. They also argued strongly for the demise of the Bretton Woods agreement; particularly the flow of capital across state borders. Possibly the first major breakthrough was in 1972 when President Nixon broke the direct link between gold and the US\$, resulting in the move from relatively fixed currency exchange rates to the “free market” rates we have today.

Many of us are only too aware of the way that President Reagan and Prime Minister Thatcher embraced neoliberalism in the 1980s. Now, after nearly 40 years of these policies, we can clearly see the results in increased inequality; increases in corporate power; globalisation; the industrial rust belts in many western countries; the growth of sweatshops particularly for textile manufacture in the very poor countries of Asia. In reaction we have seen, in the last few years, the growth of hard right political parties in many democracies.

As far as New Zealand is concerned, both the major political parties embraced neoliberalism in the 1980s

and as a result completely changed the governance and political landscape in Aotearoa. The intention was to make New Zealand a more competitive economy. Foreign exchange was completely deregulated; capital controls virtually eliminated; the taxation system made regressive with the introduction of GST and enormous reductions in the higher rates of income tax. Many government departments were made into “State Owned Enterprises” and then sold for a song. Collective action by employees became extremely difficult and labour unions significantly weakened. Regulations covering health and safety, construction, forestry, mining etc were greatly weakened and what was left was not enforced as the “market” would look after enforcement.

All this meant that there would be no impediments to a “free market”. We did not end up with a free market, but markets dominated by small numbers of large companies and an economy where the rich get evermore richer and the poor evermore poorer. Plus, leaky buildings, the CTV building, polluted rivers and Pike River

The introduction of MMP in 1993 was, at least partially, in reaction to the unchecked reforms of the previous decade but still neoliberalism marched on. The Clarke Labour led coalition from 1999 to 2008 slowed up the neoliberal tide and took off some of the hard edge, but most of this was reversed by the Key led National Government from 2008 to 2017. But perhaps the most damage was done below the waterline as neoliberal thought and philosophy became embedded in key government departments.

This presents a real challenge for the current Labour led coalition. The Prime Minister has indicated that she does not adhere to neoliberal policies and their consequences. She wants to eliminate child poverty and, by implication, poverty in general. Inequality is to be addressed. But all within the constraints of the Budget Responsibility Rules and a promise not to introduce any new taxes.

If the Government is to successfully deal with poverty, inequality and climate change it will need to change attitudes throughout government and rethink how government is to be funded. The small government mindset of neoliberalism needs to be replaced by a commitment to social responsibility alongside financial responsibility. An equitable society means everyone contributing according to their means and abilities. Failure will mean Aotearoa will continue to be a rich man’s paradise and a poor person’s hell.

¹ Slobodian: Globalists-the end of empire and the birth of neoliberalism page 271

² Ibid page 272

³ Ibid page 272