



Economic Neoliberalism and International Development

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Introduction

- The roots of neoliberalism lie in philosophical writings handed down by writers such as John Stuart Mill, Adam Smith and Jeremy Bentham
- Contemporary concepts of neoliberalism stem, essentially, from the Mont Pèlerin Society (MPS), and especially from a 'statement' drafted by Lionel Robbins in 1947
- The MPS, and its 1947 meeting in particular, has consisted of a mix of leading intellectuals including Milton Friedman, Friedrich Hayek, John Jewkes, Frank Knight, Fritz Machlup, Ludwig von Mises, Michael Polanyi, Karl Popper, Lionel Robbins, Wilhelm Röpke and George Stigler.
- The principles embodied in the 1947 statement (see next slide) were largely economic in nature (although having significant political implications) and can be interpreted as representing a 'Conservative' view of society and of the economy

The basic principles of the MPS view of neoliberalism

1. The prime factor in the allocation of resources and in the setting of economic priorities is the market;
2. Given the significance of 'the market' allowing free competition within markets is of the utmost importance;
3. The principal means of production, distribution and exchange should be privately owned;
4. State (government) involvement in the economy should be minimal;
5. In order to ensure free competition monopoly power within production, distribution and exchange should be minimal, and trades unions should not be permitted to exercise power within the labour market;
6. The legal system should ensure the unrestricted enforcement of market competition and of property rights.

Basic Principles continued

Following from this characterisation:

- A. These principles largely relate to the economic dimensions of society – hence the term ‘economic neoliberalism’
- B. There is a considerable literature, much of it relatively recently published, which purports to discuss neoliberalism but which hardly touches upon these economic dimensions
- C. However, as John Williamson has made clear, the approach of the Washington Consensus has close associations with the MPS Statement

Basic Principles continued

One further clarification can be made at this point – many non-economists confuse ‘neoliberalism’ with ‘neoclassical economics’

However, the two are only tangentially related –

neoliberalism is a set of ideological concepts (prescriptive and contestable)

but

neoclassical economics is a body of theory which does not have a direct ideological content

For example – two very highly regarded development economists, Joe Stiglitz and Dani Rodrik, are essentially neoclassical economists, but are both far removed from neoliberalism

| Original Washington Consensus | “Augmented” Washington Consensus – the previous 10 items plus: |
|--|--|
| <ol style="list-style-type: none"> 1. Fiscal discipline 2. Reorientation of public expenditures 3. Tax reform 4. Financial liberalization 5. Unified and competitive exchange rates 6. Trade liberalization 7. Openness to DFI 8. Privatization 9. Deregulation 10. Secure Property Rights | <ol style="list-style-type: none"> 11. Corporate governance 12. Anti-corruption 13. Flexible labour markets 14. WTO agreements 15. Financial codes and standards 16. “Prudent” capital-account opening 17. Non-intermediate exchange rate regimes 18. Independent central banks/ inflation targeting 19. Social safety nets 20. Targeted poverty reduction |

Source: Rodrik, 2006: 978

Significant Issues

- It can be seen that the 10 original points in the Washington Consensus are very close to the main principles of economic neoliberalism in the MPS Statement of 1947
- For example:
- In the original version of the WC and in the MPS Statement the absence of the poverty 'safety net' and of targeted poverty reduction is notable
- The original WC and the MPS Statement emphasise deregulation – while the augmented version of the WC includes financial codes and standards, corporate governance and anti-corruption

The treatment of Poverty by Economic neoliberalism

- Poverty is treated within the principles of economic neoliberalism as being a natural outcome of 'market forces' – remember the primacy of the market
- The income distribution – the extent of economic inequality – is also a market outcome
- A purist economic neoliberalism approach to these issues would therefore be that state intervention is inappropriate – any remedial measures should be left to the private sector – e.g. charities
- Essentially, it is possible to argue that in economic neoliberalism there is no place for moral and ethical considerations – 'business is business'

The Treatment of Regulation by Economic Neoliberalism

- There is a fundamental contradiction within Economic Neoliberalism in its approach to the role of the State and to the regulation of markets in particular
- In Economic Neoliberalism there is a principle of market primacy – and a view that ‘free’ competition is necessary to achieve the desired outcomes
- However, this approach neglects market ‘imperfections’ – monopoly and monopsony, oligopoly and oligopsony, imperfections of information exchange, asymmetric market power – all emphasised by many neoclassical economists who are not of the neoliberal persuasion
- Recent ‘neoliberal’ economic policy in Western economies (UK, USA, EU for example) has involved considerable levels of regulation, competitive tendering, and ‘contracting out’ – forms of ‘state enforced competition’

Implications for Developing Countries

- So – what are the implications of all this for developing countries and for international development?
- There are two principal points:
- 1. Contemporary market economies in ‘the West’ now have markedly different socio-economic structures to those of 1947 so that the principles of the original MPS Statement need to be reinterpreted in this ‘time series’ context
- 2. The contemporary socio-economic structures of ‘developing’ and ‘transitional’ economies are markedly different not only to those of developed market economies in 1947, but also to these structures in the present day so that the principles of the original MPS Statement need to be reinterpreted in this ‘cross section’ context

Implications for Developing Countries

- We can distinguish more clearly between ‘time series’ and ‘cross section issues’
- Time series – changes in economic structures and systems over time
- Cross section – differences in economic structures and systems at a particular point in time
- In the ‘cross section’ context the nature of the institutional structures of ‘developing countries’ lack critical elements which were assumed by the MPS ‘philosophers’ to exist in 1947 in developed market economies
- Assumptions that regulatory and judicial structures in developing countries are sufficiently robust to permit the ‘transfer’ of contemporary economic neo-liberalism from ‘developed’ to ‘developing’ economies are poorly grounded

Implications for Developing Countries

- Essentially economic neoliberalism should not be regarded as consisting of a set of 'absolute' principles
- It should be regarded as a 'relative' concept – countries are not either 'neoliberal' or 'dirigiste' but in reality exist on a continuum of more or less 'neoliberalism'
- For example, the adoption of trade liberalisation, of foreign exchange rate liberalisation and interest rate liberalisation does not mean that the entire economy should be regarded as 'neoliberal'

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