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Neo-Liberalism

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ABSTRACT

Neo-Liberalism is capitalism without leftist illusions (i.e., illusions that there can be such a thing as humane capitalism on a long-term basis). The concept suggests its own definition: 'Neoliberalism' is a revival of 'liberalism'. 'Neo' means we are talking about a new king of liberalism. This definition suggests that liberalism, as a political ideology, has been absent from political discussions and policy making for a period of time, only to emerge in more recent times in a reincarnated form. It suggests, in other words, that liberalism has undergone a process of initial growth, intermediary decline and finally a recent rejuvenation. For present purposes, a useful baseline definition is that neoliberalism is a political project that is justified on philosophical grounds and seeks to extend competitive market forces, consolidate a market friendly constitution and promote individual freedom.

I. INTRODUCTION

Neo-Liberalism is capitalism without leftist illusions (i.e., illusions that there can be such a thing as humane capitalism on a long-term basis). The concept suggests its own definition: 'Neoliberalism' is a revival of 'liberalism'. 'Neo' means we are talking about a new king of liberalism. This definition suggests that liberalism, as a political ideology, has been absent from political discussions and policy making for a period of time, only to emerge in more recent times in a reincarnated form. It suggests, in other words, that liberalism has undergone a process of initial growth, intermediary decline and finally a recent rejuvenation. For present purposes, a useful baseline definition is that neoliberalism is a political project that is justified on philosophical grounds and seeks to extend competitive market forces, consolidate a market friendly constitution and promote individual freedom. Neoliberalism is not of course, co-extensive with global economy. It takes form of a variegated world market that is based on interaction within a space of flows articulated to regional and national 'varieties of capitalism' and other forms of economic organization. Neoliberalism has reduced the frictions associated with national 'power containers' or analogous borders, strengthened the logic of profit oriented, market mediated competition within the world economy, and reinforced the influence of world

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market dynamics is world society more generally. These tendencies are particularly associated with the promotion of liberalization, de-regulation, privatization, expansion of market – proxies in the residual state sector, internationalization and the lowering of direct taxes. Neoliberalism tends to judge all economic activities in terms of profitability and all social activities in terms of their contribution to capital accumulation. Neoliberalism supports fiscal austerity, deregulation, free trade, privatization and greatly reduced government spending.

II. CONCEPTUAL HISTORY AND DEFINITIONS

The term was introduced in a positive sense, as ‘neoliberalism’ by Alexander Rustow and other members of the Freiburg circle in the 1930s. It signified a renewal or reform of classical or laissez-faire liberalism and called in particular for a strong state that would regulate as well as protect and expand free markets. In short, it called for a ‘free market, strong state’.

Its foundations can be traced back to the classical liberalism advocated by Adam Smith, and to the specific conception of man and society on which he found his economic theories. Neoliberalism, is under this view, thought of as an entirely new paradigm for economic theory and policy-making, the ideology behind the most recent stage in the development of capitalist society and at the same time a revival of the economic theories of Smith and his intellectual heirs in the 19th century.

David Harvey’s definition of neoliberalism, in his ‘A Brief History of Neoliberalism’, to give the concept a wide-ranging definition, which in parts harks back to the analysis submitted by Cross, Nawroth and Ver Hecke. His definition does shed a ray of light on the issue of what kind of phenomenon neoliberalism is:

“Neoliberalism is in the first instance a theory of political economic practices that proposed 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 trade. The role of the state is to create and preserve an institutional framework appropriate to such practices. The state has to guarantee, for e.g., the quality and integrity of money. It must also set up those military, defence, police and legal structures and functions required to secure private property rights and to guarantee, by force if need be, the proper functioning of markets. Furthermore, if markets do not exist, then they must be created, by state action if necessary. But beyond these tasks, the state should not venture. State interventions in markets must be kept to a bare minimum because, according to the theory, the state cannot possibly possess enough information to second-guess market signals (prices) and because powerful interest groups will inevitably distort and bias state interventions (particularly in democracies) for their

own benefit”.

Neoliberalism has different names in different geographical contexts. In India, it goes by the name of ‘economic reforms’ and the ‘New Economic Policy’ (NEP).

Bhagwati, a Columbia University economics professor and an intellectual proponent of neoliberalism, conceptualizes reforms qua neoliberalism as representing “a reversal of the anti-globalization, anti-market, pro-public-pro-enterprise attitudes and policies that produced our dismal growth performance (during the pre 1991 period).” He says that these reforms are the most important factor in reducing poverty by increasing growth. His argument is that growth creates employment: it puts money in the hands of the government, which can provide health and other facilities for the poor, and it also provides incentive to the poor to invest in human capital.

Neoliberalism must be seen as the restoration and reinforcement of class power (Harvey 2005), specifically the class power that large owners of business have over the working masses in a situation where markets are less regulated and animal spirit (private entrepreneurship) is more and more encouraged.

India’s Prime Minister, Mr. Modi’s mantra of “minimum govt.” and “maximum governance” and vikas (development) is a part of the same neoliberal agenda.

III. CHARACTERISTICS OF NEOLIBERALISM

The main points of neoliberalism include:

1. The rule of the market: Liberating “free” enterprise or private enterprise from any bonds imposed by the government no matter how much social damage this causes. Greater openness to international trade and investment, as in NAFTA. Reduced wages by deunionizing workers and eliminating workers’ rights that had been won over many years of struggle. No more price controls. All in all, total freedom of movement for capital, goods and services.
2. Cutting public expenditure for social services: Like education and health care. Reducing the safety net for the poor, maintenance of roads, bridges, water supply.
3. Deregulation: Reduce government regulation on everything which could diminish profits, including protecting the environment and safety on the job.
4. Privatization: Sell State-owned enterprises, goods and services to private investors. This includes banks, key industries, roads, toll highways, electricity, schools, hospitals, etc. Although usually done in the name of greater efficiency which is often needed,

privatization has mainly had the effect of concentrating wealth even more in a few hands and making the public pay even more for its needs.

5. Eliminating the concept of “the public good” or “Community and replacing it with” individual responsibility”. Pressuring the poorest people in a society to find solutions to their lack of health care, education and social security all by themselves.

IV. INSTITUTIONS ESTABLISHED UNDER NEOLIBERALISM

Around the world, neoliberalism has been imposed by powerful financial institutions like the International Monetary Fund (IMF), the world bank and the Inter American Development Bank. The IMF and the world Bank were both created at the end of World War II in a political climate that's very different from that of today. Never the less their roles and modalities have been suitably updated to benefit from neoliberalism.

Initially the primary focus of the IMF and World Bank was to regulate currency exchange rates to facilitate orderly international trade and to be a under of last resort when a member country experiences Balance of payments (BOPs) difficulties and is unable to borrow money from other sources. The primary focus of World Bank was to lend money to Western European governments to help the rebuild their countries after the war. Later the World Bank shifted its attention towards developmental loans to third world countries.

The power of IMF becomes clear when a country gets into financial trouble and needs funds to make payments on private loans. Before hand, it lays down certain conditions on that country, requiring it to make structural changes in the economy called structural Adjustment Programmes which increase the money flows into the country by promoting exports so the debts are paid off. These SAPs are highly neoliberal.

The World Bank plays a qualitatively different roles than the IMF, but works tightly within the stringent SAP framework imposed by the IMF. It focuses on development loans for specific projects, such as building of dams, roads, harbors, etc, that are considered necessary for the economic growth in a developing country.

V. NEOLIBERALISM IN INDIA

In India, neoliberalism goes by the name of “economic reforms” and the New Economic Policy (NEP). The NEP is not just a government policy and it is neither entirely new nor merely economic.

Formally introduced in 1991, it basically represents the demand of the capitalist class, and more specifically, the demands of hegemonic fractions of the domestic and foreign diasporic

capitalist class at a particular stage of in the development of Indian and global capitalism.

The NEP seeks to create conditions in which domestic and foreign capital can invest money to make a lot of money, not only by using cheap natural resources like land, water, forests and minerals but also using speculation and other non-productive means and by exploiting cheap skilled and unskilled labour.

An important goal is also to attract foreign capital and strengthen the position of Indian business in the fight for export markets and to obtain foreign technology and capital. The NEP is certainly new, but it is not as new as commonly thought. All major interventions, including major anti-poverty policies since decolonization, have been more or less about propping a regime that's little protected from imperialism and a little free from the fetters of feudal remnants. The NEP is not merely about economic matters. This is because, it must ensure political and ideological conditions for various accumulation strategies.

Successive Indian governments over nearly 2 decades under Prime Ministers Vajpayee, Manmohan Singh and now Modi, have moved towards a closer political relationship with USA under successive presidents Clinton Bush and Obama. Politics between and within countries is increasingly driven by economic considerations and the cutting edge of the strategic India U.S. relationship, declared as civilian nuclear and defence co-operation, is finally based upon congruence of economic policy.

In India, beginning with the introduction of NEP 1991, the effects of neoliberal policies have become starkly obvious in the last decade. Neoliberalism has grown strong roots, and big money has entered governance, beginning with influencing the election process itself and to all democratic processes, to influence the executive, legislative and even the judicial functions of the state.

Neoliberalism has led to a small minority of winners and a very large majority of losers. It has vastly benefitted the capitalist class, including those fractions that specialize in finances, IT, real estate and natural resources, producing close to 109 USD billionaires.

It has heaped massive amount of economic inequality insecurity, unemployment and underemployment, casualisation, informalisation, greater labour exploitation etc. Rural areas have particularly suffered, producing a specific form of neoliberalism: agrarian / rural neoliberalism. The rural development expenditure as a percentage of net national product has been decreasing. Access to cheap loans for farmers has been limited, price supports reduced and the Public Distribution System of subsidized food has been drastically curtailed. The peasants are losing land to capital industrialization and land speculation. Land ceiling laws are

reversed because they're considered to be constraints on capital flows into farming.

Because of trade liberalization, changes in international prices make farmers-especially those with less land and limited investible surplus-more vulnerable when prices fall; many of them depend on exploitative private traders and money lenders.

VI. EXAMPLES AND CRITICISMS

(A) Examples of Neoliberalism in practice:

- Chile in the late 1970s under the military dictatorship of general Pinochet adopted free market policies, including privatization, deregulation, and reduced government interventions in pensions, health and education.
- The policies of Reagan (US) and Thatcher (UK) during the 1980s are considered to have neoliberal under pinning because they sought to privatize state owned industries, cut income taxes and reduce government regulation. Though in practice, extensive government intervention in the economy remained.
- Russia post-communism wherein the Russian economy saw widespread price deregulation and privatization. The program of privatization was controversial as some became very wealthy overnight.
- EU neoliberal policies for Greece included reforen public administration and focuses on fiscal consolidation, including tax and spending reforms and could be labeled neoliberal.

(B) Criticisms On Neoliberalism

- Market fundamentalism: Critics argue that advocating the use of free markets in areas such as health and education is misplaced because by nature these are public services, which are not subject to the same profit motivation. Also the free market, ignores the externalities of health and education. Adopting a free market approach can lead to widening of inequality.
- Monopoly and monopsony power : A broadly neoliberal policy has seen widening inequality of both wealth and income in the western world. This is due to several factors, such as skilled workers in position to command higher wages, but low- skilled ones are more likely to see stagnant wages. Firms with monopoly power can increase producer surplus at the expense of consumers and firms with monopsony power able to limit wage growth.

- The Growth of financial flows : Its growth from capital deregulation has not necessarily helped economic development, but instead has contributed to increased financial instability, which has caused wider economic shocks.
- One size fits all : An important problem of neoliberalism is that policies that may work in one country doesn't necessarily work in all countries. For eg. A country with the ability to reduce interest rate may benefit from reducing the size of government borrowing (fiscal austerity). But, if interest rates are zero in an economy like UK, the cost of austerity may be much higher than the benefits.
- Inequality: Neoliberal policies tend to increase inequality and this inequality can harm long-term growth prospects. Those with low-income have limited spending power and those who have become rich have a higher marginal propensity to save.

VII. CONCLUSION

Neoliberalism is about changing the balance of class power in favour of the capitalist class. Neoliberalism is capitalism without leftist or social-democratic illusions. It tends to judge all economic activities in terms of profitability and all social activities in terms of their contribution to capital accumulation. It generally includes the belief that freely adopted market mechanisms is the optimal way of organizing all exchanges of goods and services. Thus, neoliberalism has a loose set of ideas of how the relationship between the state and its external environment ought to be organized. We are led to believe that 'neoliberalism', i.e., monetarism and related theories, has dominated macro-economic policy making, as indicated by the tendency towards less state regulations on the economy, and greater emphasis on stability in economic policy.
