The Rise and Fall of Neoliberalism

The Collapse of an Economic Order?

Edited by
Kean Birch and Vlad Mykhnenko

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INTRODUCTION • A World Turned Right Way Up

KEAN BIRCH AND VLAD MYKHNENKO

Writing about neoliberalism in 2010 is a challenge. On the one hand, the credit crunch and banking crisis have exposed the fault lines in the neoliberal economic order that has been dominant for the last three decades: Margaret Thatcher's confident assertion that 'there is no alternative' springs to mind here. On the other hand, the different impacts and implications of the recent economic crises illustrate the diversity in the implementation and embeddedness of neoliberalism in many countries, thereby suggesting that neoliberalism is not (and never was) a single hegemonic system in the first place. Such a challenge, however, represents an opportunity to further our understanding of neoliberal economic order(s) and how this order grew to such prominence and held sway over national and international policy for so long. According to David Harvey (2006), neoliberalism has failed even to come close to, let alone achieve, the growth rates of the golden age of Keynesianism (1960s), which raises a serious question about how it has maintained legitimacy in the face of its own failed *raison d'être* – to ensure wealth for all through market efficiency. Thus it is pertinent to consider the core contradiction underpinning the seeming collapse of neoliberalism: the extent to which the current crisis is tied to the very foundations on which neoliberalism was built, namely the expansion of finance capitalism and the associated housing and stock market booms of the 1990s and 2000s.

There is a terrible irony in the fact that neoliberal policies of privatization, marketization and liberalization over the last thirty years have produced proceeds with a monetary value (€1.3 trillion) that is only twice the recent bank bail-outs by the US and European governments (see Hall 2008: 6), a fact that can be lost in the soul-searching of mainstream commentators. Furthermore, government guarantees for bank debts – at €6 trillion – dwarf the proceeds of privatization to such an extent that, should there be widespread defaults, our governments would have effectively not only given away the 'family silver', but paid someone handsomely to take it off their hands. Who then benefited from this economic order? We can point fingers at the bankers, as government have found it politically expedient to do, but we have also to acknowledge that the financialization of the global economy has gone hand in hand with property booms that have effectively enrolled citizens in the expansion of neoliberalism – a windfall largely limited to citizens in the Global North, it must be stressed. For example, Matthew Watson (2008) argues that as individuals have been incorporated into the British housing market, which was (and still is) dependent upon ever-increasing house prices, they have been remade politically as 'monetary conservatives', more concerned with inflation than welfare spending. More generally, Stuart Hall (2003: 10) argues that 'a new neoliberal common-sense' has 'colonized' civil society.

What is evident in this mess is that the conceit at the heart of neoliberal thought has been exposed. The very idea that markets are self-organizing, efficient and liberating is no longer credible, but illustrates the extent to which neoliberalism – as shorthand for market-like rule – is an economic, political and ideological project pursued by certain groups (such as governments and corporations) to construct a reality that is perceived to be founded in the inherent properties of economic markets. This circular reasoning has replaced any sense of what we ought to do to achieve democratic goals and ambitions with a logic built on the perception of the inherently good and essential qualities of markets. Thus morality and ethics have been turned right way up in response to the 'natural law' of economic exchange in which the rich can buy more freedom than the poor. This book is an attempt to understand how this has happened, how it has come undone, and what alternatives we can turn to now.

The Ideological and Historical Origins of Neoliberalism

The origins of neoliberalism as an ideology can be traced back to the late 1930s when a group of liberal intellectuals met in Paris to discuss the threat posed not only by totalitarianism, such as National Socialism in Germany, but also by collectivist planning of the economy as in the British Keynesian state and the New Deal in the USA. This meeting, held in 1938 and organized by Louis Rougier, led to the coining of the term 'neoliberalism' to update nineteenth-century liberalism by introducing the idea that governments play an important role as the guardian of 'free markets' by securing the rule of law (Turner 2007; Peck 2008). In part, this 'new' liberalism was the consequence of the incorporation of marginalist economic thought (see Fine, this volume) with critiques of equilibrium theory, both of which had characterized the emerging Austrian School of economics. As such, economics is directly implicated in the two main foundational tenets of neoliberalism: first, in the view of von Mises that 'egoism is the basic law of society' (quoted in Peet 2007: 73); and, second, in Hayek's view that free markets lead to 'spontaneous order' that solves the problem of economic calculation. In many ways, these two individuals – Ludwig von Mises (1881–1973) and Friedrich von Hayek (1899–1992) – represent the founding fathers of neoliberalism, providing the theoretical backbone for the political and ideological claims made by others. In this sense, neoliberalism was very much an ideological project, one that attempted to counter what neoliberal thinkers saw as the inherent totalitarianism of collectivist and state planning of the economy by drawing on economic theories which, in turn, posited the impossibility of economic planning in the first place.

The Second World War and the emigration of Austrian economists helped to spread neoliberal thinking around the world as figures like von Mises, Fritz Machlup and Michael Polanyi fled Nazism. It was also during this time that Hayek wrote *The Road to Serfdom*, published in 1944, in which he outlined the main case against central planning and defended capitalism against the claims that it had led to fascism: in essence, the book upheld the idea that market freedom came before democratic freedom because 'only capitalism makes democracy possible' (quoted in Turner 2007: 73). Following the war, neoliberalism was more formally established in intellectual networks such as the Mont Pelerin Society (MPS), founded in 1947. Bringing together several diverse strands of neoliberal thought, including Austrian émigrés, British intellectuals from the London School of Economics (LSE) and University of Manchester, Americans from the Chicago School – including Milton Friedman – and Germans from the Freiburg School, the MPS built on the work of the earlier meeting in Paris (Peck 2008).

Two of the MPS's aims are relevant for the discussions in this book: first, that the role of the state needs to be redefined; second, that an international order needs to be created to ensure international economic agreement (Plehwe and Walpen 2006: 33–4).

Implicit in the establishment of the MPS was the view that ideas matter, playing an important role in determining the outcome of events as they circulate through government, universities, civil society and the media. Consequently, neoliberal thinkers and their business sponsors – such as Sir Antony Fraser – helped to found numerous organizations to promote neoliberalism, particularly think tanks and business forums (see Miller; Birch and Tickell, this volume). Examples of the establishment of such neoliberal think tanks include the Institute of Economic Affairs (IEA) in the UK (1955) and the Heritage Foundation in the USA (1973) – see the work of Carroll and Carson (2006) for a more thorough analysis. These 'idea centres' represent the emergence of a neoliberal political project to counter Keynesian policy and government intervention in markets, incorporating a number of often seemingly diverse theories and ideas from across economics and political science. Mark Blyth (2002) demonstrates particularly clearly that the combination of Milton Friedman's monetarism with theories of rational expectations, supply-side economics and public choice contributed to the breakdown of the post-war consensus through the promotion of a neoliberal agenda and economic policies.

The motivation lying behind this attack on Keynesianism was primarily a concern with taxation and inflation, brought to widespread attention during the stagflation crisis of the 1970s when both unemployment and inflation rose dramatically. Duménil and Lévy (2004: 23–4) attribute this 'structural crisis' to the falling rate of profit; that is, the declining return on capital invested in machines and technology. Consequently the only way to increase profit was by controlling labour costs, which means that neoliberalism can be seen as a political project intent on restoring class power (Harvey 2005). The neoliberal political project was also enabled by the collapse of the Bretton Woods system in 1971 when the USA ended the convertibility of dollars to gold, ushering in a new era of free-floating currencies and international capital flows (Hutton 1995). The 1970s therefore provided the political opportunity to push for a new economic project founded on neoliberal assumptions about economic efficiency, reduced state intervention and free markets.

This economic project found its advocates in a number of new right-wing politicians around the world exemplified by Margaret Thatcher (1979–90) in the UK and Ronald Reagan (1981–9) in the USA, whose policies became known respectively as Thatcherism and Reaganomics. Other countries have followed suit by implementing neoliberal policies (see Swain, Mykhnenko and French, this volume), whilst some started even earlier than the UK and USA. For example, the 'Chicago boys' – Chilean economists trained at the University of Chicago where Milton Friedman worked – helped the dictator Augusto Pinochet to privatize and deregulate the economy after the coup that ended Salvador Allende's government and life in September 1973 (Harvey 2005). Although the spread of neoliberal economic policies around the world has been uneven, in that each country has witnessed varying levels of ideological and political adherence to different economic policies (see Jessop, this volume), what has characterized them all has been an emphasis on five core principles (Hall 2003; Hay 2004; Mudge 2008): *privatization* of state-run assets (firms, council housing *et cetera*); *liberalization* of trade in goods and capital investment; *monetarist* focus on inflation control and supply-side dynamics; *deregulation* of labour and product markets to reduce 'impediments' to business; and, the *marketization* of society through public–private partnerships and other forms of commodification (see Tyfield; Lohmann; Shaoul, this volume). These principles are all meant to enable individual freedom through recourse to a 'free' market that is efficient in allocating resources across society and the world because only the market can coordinate all the information signals from numerous agents (such as sellers and buyers). As will be shown in several chapters in this book, such assumptions are rightly castigated, having led to severe hardship for many people in society in many parts of the world.

Waves (and Waves) of Neoliberalism

It is useful to distinguish – as we have done above – between the ideological, political and economic projects of 'neoliberalism' in order to understand how it has come to be so dominant a political-economic discourse. To start with, neoliberal economic theories represent an ideological project based on abstract concepts (e.g. rational expectations, utility maximization, free markets, *et cetera*) that assumes market efficiency and therefore underpins a re-conceptualization of the state's role in the economy: that is, enforcing the 'rule of law' as opposed to owning and running businesses or welfare services (see MacLeavy, this volume). As highlighted above, this form of discourse has spread through global networks of neoliberal thinkers and (usually corporate) supporters that are positioned in specific sites around the globe; for example, London (Miller, this volume) and Washington (Birch and Tickell, this volume). The subsequent incorporation of neoliberal ideas into specific government policy more accurately reflects a political project allied to specific state-led strategies that promote neoliberalism through different processes characterized by privatization, liberalization, marketization, deregulation and monetarism. These strategies, however, differ in their political motivations and priorities, depending on where they are applied (Birch and Mykhnenko 2009). Thus, Brenner *et al.* (2010) argue that these state-led projects are also context-specific in that the implementation of neoliberalism is always embedded within and reworks existing 'institutional landscapes' through processes of neoliberalization; that is, neoliberalization does not represent a single homogenizing process, but leads to variations across different places, as is evident in many of the later chapters.

It is therefore possible to identify different forms of neoliberalism alongside the differing impacts of neoliberalization not only in concrete historical and social, political and economic terms, but also geographically, since neoliberalism operates in multiple scales (Larner 2003). For example, neoliberalism is evident in local projects, national-state policies, and supranational institutions like the World Trade Organization (WTO) and the World Bank (see van Waeyenberge, this volume). Although there are differences in the form that neoliberalism takes and in the responses to it (see Chatterton; Routledge; Shaoul, this volume) – especially on a country by country basis (see Hinojosa and Bebbington, this volume) – this issue of variations in neoliberalism is an empirical question that needs to be teased out through careful research. Conceptually, however, it is possible to think about neoliberalism as a hegemonic political-economic project, as many scholars have done. In particular, Adam Tickell and Jamie Peck (2003: 166) argue that neoliberalism is a process best described as 'the mobilization of state power in the contradictory extension and reproduction of market (-like) rule', which can be split usefully into 'roll-back' and 'roll-out' phases.

What this means is that it is too simplistic to assume that neoliberalism leads to the 'hollowing out' of the state because neoliberalism involves the shifting of state intervention to new forms of governance underpinned by a 'logic of competitiveness', including: 'active' and flexible labour policies; new commodification regimes such as intellectual property rights and carbon trading (see Tyfield; Lohmann this volume); fiscal austerity; and public spending on supply-side inputs (e.g. education, infrastructure, *et cetera*). What is evident, according to Peck and Tickell (2002), is a shift in emphasis over time. For example, Thatcherism and Reaganomics represent a 'rolling-back' of regulation, state ownership and welfare services during the 1980s, driven, in large part, by a monetarist preoccupation with inflation that encouraged different forms of privatization (Prasad 2006). This phase was motivated by 'external' pressures – that is, pressures not induced by neoliberalism itself – including the 'structural crisis' of the 1970s and the extension of neoliberalism to the Global South through the 'Washington Consensus' (Williamson 1990): this 'consensus' promoted 'reforms' in Southern countries in pursuit of trade income to offset debt obligations. A subsequent shift towards 'roll-out' neoliberalism, especially through marketization, is then evident in the 1990s as Northern countries have sought to contain the 'internal' contradictions inherent in the neoliberal project such as mass unemployment (Tickell and Peck 2003; see Jessop, this volume). In this latter phase, national political economies are recast as problematic in relation to the emerging global economy, leading to a rescaling of governance as sub-national partnerships are encouraged to deliver on nationally or, increasingly, supranationally set priorities and goals oriented around competitiveness (Peck 2001; van Apeldoorn 2008).

What we end up with are 'race-to-the-bottom' or 'beggar-thy-neighbour' strategies in which responsibility for the delivery of political priorities is shifted further and further downwards until what results is a new model of citizenship in which societal rights and responsibilities transform personal 'deficiencies' (such as unemployment) into 'failures' of the individual rather than society (see MacLeavy 2008). The encouragement of competition between individuals (and localities) for government or private sector resources provides one avenue through which the market state, already enrolled as a facilitator in the 're-regulation' and extension of markets, fosters new individualistic subjects for market rule (Hall 2003; Cerny

2008). Individuals are constructed as rational subjects – encouraged to compete in flexible labour markets that depend on entrepreneurship, life-long learning and transferable skills (that is, employability) – by shifting responsibility for social justice, well-being and health outcomes from the state to the individual (see MacLeavy, this volume). One particularly invidious example of how this is enacted is in the expansion of consumer credit – and hence debt – in Anglo-American countries, encouraged in large part by stagnation in real wages resulting from flexible labour markets and unemployment (Boyer 2000; Montgomerie 2007). Easy credit and increasing levels of debt have left countless households in ruin as a consequence of the current crisis. The responses of people fighting this individualization and marketization of responsibility are diverse, and the dramatic impacts that impoverishment and disempowerment have on individual health and achievement are in need of further study. In this book, several contributors address these issues directly by looking at the impact of alternative politics (see Shaoul, this volume) and alternative personal and community strategies (see Chatterton; Routledge, this volume) on people, countries and the world.

Varieties of Neoliberalization: Poor Results and Divergent Trajectories

In the three decades since the election of the first ideologically committed neoliberal government in May 1979, neoliberalism has gone truly global, reaching every corner of the world and producing numerous variants (see Jessop, this volume). Indeed, the end of the Cold War and the collapse of Soviet power in 1989–91 even led Francis Fukuyama (1989) to declare that history had ended with an unqualified victory for free-enterprise capitalism and the total exhaustion of viable systemic alternatives to Western liberalism. Before the advent of the current financial-economic crisis in August 2007, the political ascendance and geographical spread of neoliberalism had been greatly aided by the maintenance of dogmatic and rhetorical purity. Whilst persistently advocating maximum scope for the free play of market forces in economy and society, neoliberal ideologues were able to specify their own recommendations (termed 'policy reforms') aimed at achieving a free market revolution (see Swain *et al.*, this volume).

In 1989, John Williamson (1993: 1334) designed what he described as a generally applicable 'universal convergence programme' comprising 'the common core of wisdom embraced by all serious economists'. The proposed ten policy reforms included an imposition of a tight fiscal discipline (with virtually no public budget deficit allowed); an end to subsidies and re-direction of public expenditure on basic health, education and infrastructure; tax cuts; financial liberalization; free-floating exchange rates; trade liberalization with a unified low tariff; openness to foreign direct investment (FDI); privatization; deregulation; and secure private property rights. Williamson dubbed his list of reforms a *Washington Consensus* because 'both the political Washington of Congress and senior members of the administration and the technocratic Washington of the international financial institutions, the economic agencies of the US government, the Federal Reserve Board, and the think tanks' had reached by then an explicit agreement that 'prudent macroeconomic policies, outward orientation, and free-market capitalism' had to be urged on the rest of the world (Williamson 1990, 1993). The Washington Consensus heralded a new order when, according to a critic:

> Life used to be relatively simple for the peddlers of policy advice in the tropics. Observing the endless list of policy follies to which poor nations had succumbed, any well-trained and well-intentioned economist could feel justified in uttering the obvious truths of the profession: get your macro balances in order, take the state out of business, give markets free rein. 'Stabilize, privatize, and liberalize' became the mantra of a generation of technocrats who cut their teeth in the developing world and of the political leaders they counselled. (Rodrik 2006: 973)

The Washington Consensus had its operational memory rooted in Chile's neoliberal reforms under General Pinochet in the 1970s. By the 1980s, the Washington Consensus reforms spread across Latin America in a series of 'structural adjustment' packages aimed at ensuring that Latin America's massive foreign debt to the West would be fully repaid; some of the consequences of and responses to these reforms are addressed in the chapter by Hinojosa and Bebbington. Assuming that all problems with Latin American, Soviet and indeed non-Anglo-American economies stem from 'pervasive' government involvement and control over economic activity, prices and international trade, and from 'extensive' public ownership of productive assets, the fundamental solution prescribed by neoliberal policy advisers was that of macroeconomic stabilization and structural adjustment. With the collapse of the Berlin Wall, the stabilization programme first applied by Harvard economist Jeffrey Sachs in Bolivia in 1985 was redesigned and expanded by his team in Poland and Russia. This 'shock therapy' aimed at the wholesale transition of centrally planned societies towards market-based capitalism. Back in 1990, Milton Friedman (1990: 7) personally encouraged his followers in shock therapy by assuring them that all 'the talk about "the enormous costs of moving to a free-market economy" is much too gloomy. There is no reason why total output cannot start expanding rapidly almost immediately after the totalitarian restrictions on people's activities are removed.'

Whilst Latin American, East European and sub-Saharan countries were fast liberalizing their 'emerging' and 'transition' economies, they had also been forced to undergo a radical process of slimming down, shrinking and re-inventing the state (see Jessop, this volume). The World Bank's 1996 policy manifesto *From Plan to Market* drew the contours of the neoliberal blueprint being peddled both in the tropics and near the Polar circle; the latter manifestations of World Bank policy are described in the chapter by van Waeyenberge. The Washington Consensus promised that the combination of stabilization, liberalization and privatization would bring 'renewed growth', and along with it prosperity, to the most remote corners of the globe by 'the unleashing of markets – the basic enabling reform from which all the potential benefits of transition [to free-market capitalism] follow' (World Bank 1996: 7).

However, contrary to popular expectations, and despite the most far-reaching programme of deregulation and privatization in the world's history, the 1990s and 2000s turned out to be lost decades for most developing and transition economies. As the authors of the Washington Consensus have had to confess, the Latin American decades have been punctuated by several crises (including the 1994 Mexican peso crisis and the 1999–2002 Argentine economic crisis), achieved disappointingly slow growth, and seen no improvement in the region's highly unequal income distribution (Kuczynski and Williamson 2003). In the post-Soviet world, the ensuing 'transformational depression' lasted for six years on average across central and eastern Europe and the former Soviet Union, ranging from two years in Poland to ten years in Moldova and Ukraine. In terms of its scale, the deepest slump in output was suffered by Bosnia and

Herzegovina (− 88 per cent), Georgia (− 75 per cent), Armenia (− 69 per cent), and Moldova (− 68 per cent). Only four countries (the Czech Republic, Uzbekistan, Poland and Slovenia) managed milder recessions, losing 15–20 per cent of GDP, whereas the scale of depression in the remaining economies in the region ranged between 30 and 60 per cent. The collapse of production also meant massive job losses and the deprivation this brings. Large proportions of the redundant labour force had to withdraw from economic activity altogether, either migrating abroad or relying on informal survival strategies at home. Unemployment levels reached double digits in most transition economies, peaking around 20 per cent in relatively successful Poland and Slovakia, and rising above 40 per cent in the areas affected by civil strife and political instability. All the evidence based upon the broader human development indicators, including life expectancy, infant mortality, demographic growth, income distribution, headcount poverty and educational attainment, suggest a very significant social cost to transition across the region (Mykhnenko 2009).

In striking contrast with the radical purity of neoliberal ideology, the results and consequences of neoliberalization as a process have been rather messy and admittedly ‘unexpected’ for the main apologists of reform (World Bank 2005: xi). Moreover, the economic and spatial impact of neoliberalization was very uneven. The transformation of Western capitalism in the Global North, as well as various transitions to capitalism in the East and South, have generated a great divergence in outcomes between the different geographical blocs of old and newly emerging capitalist states, between different individual countries, and between urban and rural areas within those countries. In our previous work we illustrate how neoliberalism has produced variegated, hybrid and geographically specific political economies in which universal economic tenets and practices were married to national and regional concerns (Birch and Mykhnenko 2009). We show how neoliberalism – as a state-led project – produced national varieties of neoliberalism in which deregulation, privatization and trade liberalization were pursued for different political reasons, in different ways and to different extents (see also Jessop, this volume). In turn, the pathway that was undertaken by the Anglo-American liberal market-based states led to the abandonment of old industries and the creation of a ‘new economy’, based upon finance and business services, and greatly facilitated by information and communication technologies (see also Boyer 2000, Hancké *et al.* 2007; and Tyfield; Shaoul, this volume). Financialization – a process of financial deepening of the increasingly global capitalist economy – was set to become both the culmination and the beginning of the end for the neoliberal economic order.

Financialization and the New Neoliberal Order

As the formerly successful, coordinated market economies of Germany and Japan were undergoing an acute crisis of accumulation, spending the 1990s in a series of attempts at upgrading the industrial base, their Anglo-American liberal market counterparts (for the distinction, see Hall and Soskice 2001; Amable 2003) had pursued finance as a new bedrock of competitive profit making. Yet this new 'structured' finance was different from the centuries-old practice of manipulating and managing money, as it involved the creation of complex debt instruments through 'securitization' (see Shaoul, this volume). Securitization was the key vehicle for the explosive expansion of the financial intermediation since the breakdown of the Bretton Woods system. It is described as the process of turning non-marketable, non-tradable financial assets into tradable securities: for instance, claims on debt (such as government bonds), claims on ownership (such as ordinary shares), or 'derivatives' – a wide rage of financial products whose value is derived from the actual or expected price of some underlying asset, which may be a commodity, a security, a currency, or indeed any economic variable. Used as a hedge to reduce risk or for speculation, derivatives can be exchange-traded as well as 'over-the-counter' (OTC) instruments, including futures contracts, forwards, options and swaps. Whilst the main market-traded derivatives are futures and options, the OTC trades are off-balance-sheet, specific and customer-tailored instruments (such as asset-backed securities, collateralized debt obligations or credit default swaps), involving seemingly esoteric practices such as the pooling of assets, the tranching of liabilities and the creation of 'special purpose vehicles' ostensibly to reduce risk (see Moles and Terry 1997). The expansion of structured finance has been facilitated by low interest rates policies pursued by the world's major central banks, which encouraged excessive 'leverage' or gearing up the debt to originate and distribute more derivatives at the fastest possible pace (Mizen 2009).

As early as 1988, the Anglo-American economies were leading the way in securitization as measured by the relative weight of capitalization of national security markets, with the UK and USA combined taking a 37 per cent share of the global securities market. Yet with financial deregulation spreading across the globe, national and systemic differences in openness of capital markets were eroded and various surveys of the world of finance carried out since then pointed to convergence as a long-term trend (Neal and Tilly 2003). At the peak of financialization in 2007, the ratio of global financial assets – the sum of the stock market capitalization, debt securities and bank assets – to global GDP reached 440 per cent. This ratio was even higher for the USA (445 per cent), Japan (547 per cent) and the European Union (581 per cent), jumping to 900 per cent in Ireland. Although the global openly traded financial assets were worth $241.1 trillion in 2007, the size of the 'shadow' banking system of OTC trade in derivates was even larger. Whilst the exchange-traded derivative financial instruments amounted in 2007 to $26.7 trillion, the respective *notional* figure for global shadowy OTC derivatives stood at $595.3 trillion or 11 times (!) the world's annual output (authors' own calculations, on the basis of IMF 2009: statistical appendix tables 3–6).

The sheer volume and the range of various exotic financial investment products generated since the 1990s have led some critical observers to describe global finance capitalism as 'an economic wonderland' of illusionary, speculative 'derivative castles built on sand' (Cloke 2009). However, as Leyshon and Thrift (2007) point out, the basis of finance capitalism has not been this spectacular system of speculation but rather a 'capitalization of almost everything', as financial capitalism fed on the most mundane 'asset streams' and stable sources of income. Robin Blackburn (2008) provides further evidence that underneath the layer of speculative wizardry, financialization has indeed relied on the process of commodification of every aspect of human life and the life course – baby bonds, student loans, car loans, credit-card debt, health insurance, private pensions and, most importantly, residential mortgage loans (see also Lohmann, this volume). Focusing on mortgage capital, Saskia Sassen (2008) uncovers a whole new spatial frontier for global finance, which is now able through residential mortgage-backed securities to extract the smallest of resources that low- and moderate-income households in emerging as well as advanced market economies can command. Yet it is this extensive tapping into the everyday resources of the US's poorest households which has eventually led to the beginning of the world's worst financial crisis on record.

Conclusion: Collapse of the Global Neoliberal Economic Order?

The hollowing out of manufacturing in the USA and other Anglo-American economies, combined with declining or stagnant real wages, has resulted in the recomposition of corporate profits towards financial intermediation and to the growing reliance of these economies on low-priced imports, primarily from China (Harvey 2005; Dunford 2009). As the greater part of tax revenues in advanced capitalist economies originates in finance, the North American, European and other governments of all political colours were unable or unwilling to control the expansion of the financial sector. Yet the ever-increasing US trade deficit with the rest of the world, and particularly with China, combined with signs of the USA's imperial overstretch in Iraq and Afghanistan, had an adverse impact on the strength of the dollar, threatening the financial sector's profits abroad. In a frantic attempt to stabilize the dollar and belatedly cool financial speculation geared towards mortgage-based securities, around the mid-2000s the US Federal Reserve began to raise base interest rates. Between 2004 and 2006, US interest rates rose from 1 per cent to 5.35 per cent, triggering a slowdown in the US housing market; the UK's central bank was even more aggressive in trying to restrict the money supply. As has been argued elsewhere, those steady increases in interest rates led to rising defaults among US holders of sub-prime mortgages in the last quarter of 2006 and early 2007. The US sub-prime mortgage difficulties triggered the credit crunch, the first phase of the crisis (August 2007–February 2008), resulting in the shutting down of about $24 trillion worth of credit lines. Growing insolvencies at overstretched financial intermediaries in France (BNP Paribas), the UK (Northern Rock), the US (New Century Financial, Countrywide, Dillon Reed, Citigroup, MBIA), Switzerland (UBS) and Germany (IKB) led the crisis to unfold further as it entered its second phase (March–October 2008), with the collapse and 'rescue' takeover of Bear Stearns, Wall Street's fifth biggest bank. The third phase of the financial crisis, occurring from October 2008, began with the bankruptcy of Lehman Brothers and resulted in a full-blown global recession (Blackburn 2008; Gowan 2009; Mizen 2009).

With the financial sector placed firmly at the heart of global financial capitalism, Western governments have been quick to abandon all the tenets of free and self-regulating markets, rushing to commit themselves to full financial support of financial institutions, opening the era of massive bail-outs and stimulus packages. By mid-2009, the US government had committed \$8.5 trillion to support its battered financial system, with \$5.8 trillion earmarked for Federal Reserve lending, credit guarantees and asset purchase schemes; \$2 trillion in other schemes; and \$700 billion in the Troubled Asset Relief Programme, a new 'public–private partnership' aimed at buying 'toxic' assets from banks. It is worth noting that the US government's commitment to the financial sector amounted to two-thirds of its GDP. The size of the UK rescue package for banks was \$2.12 (£1.22) trillion, or 87 per cent of the country's GDP, with £585 billion allocated to asset protection; £300 billion to bank credit guarantees; £185 billion to central bank loans; £94 billion to bailing out five banking institutions (RBS-Royal Bank of Scotland, Lloyds TSB, HBOS-Halifax Bank of Scotland, Northern Rock and Bradford & Bingley); £50 billion to the Bank of England corporate debt scheme; and £10 billion to a working capital fund for small businesses.

In another striking move heralded by most financial commentators as 'the end of the Thatcher era', a host of governments from North and South pushed forward with massive Keynesian-style fiscal stimulus packages (Rachman 2009). As the world's economy had slowed sharply in 2008 and was set to decline in 2009 by at least 1.3 per cent, thus entering the first truly global recession since the Second World War, governments of the world's twenty largest states agreed to spend billions of dollars in tax relief and building projects to stabilize the decline and stimulate economic growth, with the US government pledging \$937 billion; the UK \$29 billion; Germany \$103 billion; China \$586 billion; and India \$4 billion. A vast majority of developing, transition and even advanced capitalist countries, however, have been unable to either fund or borrow for their own much-needed bank bail-outs, corporate rescues and fiscal stimulus packages, with several countries having to go cap in hand to the IMF and EU monetary authorities (among them Iceland, Latvia, Hungary and Ukraine).

A number of preliminary conclusions can be drawn from this crisis. The 2007–9 financial turmoil appears to be rather unique in at least four ways. First, geographically, it has broadened to include households, corporations and the banking sectors in both advanced and emerging capitalist countries. Second, this has been the largest crisis in terms of capital loss. According to a recent estimate by the IMF, subject to a number of assumptions, the write-downs on US-originated assets to be endured by all holders since the outbreak of the crisis until 2010 could reach a total of around $4 trillion, two-thirds of which would be incurred by banks (IMF 2009: xi). Third, the sub-prime credit crunch has led to the demise or restructuring of several giants of the corporate world, including Lehman Brothers, Bear Stearns, Royal Bank of Scotland, Lloyds TSB, Citigroup, AIG, Fannie Mae, Freddie Mac, Bank of America, Northern Rock, Bradford & Bingley, Halifax-Bank of Scotland, Merrill Lynch, and Alliance & Leicester (see Klimecki and Willmott 2009). As a consequence, the current financial crisis has highlighted a dramatic shift in banking's centre of gravity, with potentially dramatic geo-political repercussions. In 1999, the world's largest financial institutions were dominated by Anglo-American banks; the world's top twenty banks by market capitalization included eleven US-based institutions (with Citigroup, Bank of America and Fannie Mae in first, second and fifth positions respectively), four UK-based (with HSBC and Lloyds TSB as the world's third and fourth largest), two Swiss, two Japanese and one Spanish. By contrast, in 2009 just a handful of the top twenty had their headquarters in the US or the UK. Amongst the top twenty banks, five were based in the People's Republic of China (with the Industrial & Commercial Bank of China, China Construction Bank, and Bank of China holding the three top positions respectively); three were bailed-out US banks (JPMorgan Chase, Goldman Sachs and Wells Fargo); the rest included only one British bank (HSBC), two Brazilian, two Canadian, two Australian, one Japanese, one Spanish, one Swiss, one bailed-out French bank (BNP Paribas) and one bailed-out Italian bank (Unicredit) (Bernard *et al.* 2009).

Finally, in addition to the return of geopolitics, the decline of the power of the Atlantic states and the dollar/Wall Street regime (Gowan 2009), the current crisis has undoubtedly severely damaged neoliberal ideology by revealing the intrinsic link between neo-liberalism as a state/class project and global financial capitalism

(Wong 2009). To some, the crisis response of the major Western governments has even embodied the natural progression of neoliberal market states into financial 'activists' – public entities which behave like activist shareholders in the market (Caprotti 2009). Whilst it is perhaps too early to understand the full ramifications of the collapse of neoliberal economic order, it is hard to resist reminding ourselves that the neoliberal consensus of twenty years ago claimed that 'Left-wing believers in "Keynesian" stimulation via large budget deficits are almost an extinct species . . . an operational budget deficit in excess of around 1 to 2 per cent of GNP is *prima facie* evidence of policy failure' (Williamson 1990). At the time of writing, when the governments in the Anglo-American world – especially in the UK, USA and Ireland – are set to reach budget deficits in the range of 11 to 13 per cent, and busy trying to fund a Keynesian stimulation programme, there can hardly be more glaring evidence of neo-liberalism's abject failure. As left-wing ideas are seemingly back in fashion, this book may contribute to the search for viable alternatives.

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