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Neoliberalism as a Variant of Capitalism

Working Paper No. 39

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Abstract: Economic systems evolve over time in adapting to the needs and deficiency of the system. This inquiry seeks to establish Neoliberalism as—in the language of Barry Clark—a variant of capitalism that evolved out of retaliation of the regulated variant of capitalism. We utilize Barry Clark’s work on the evolution of economic systems in establishing the pattern of adaptation in American capitalism. Then we establish and analyze the neoliberal variant of capitalism in how this evolution retaliated against the existing system rather than adapting the preceding variant. We then consider how the economics profession reacted when the neoliberal economic policies failed in predicting and adapting the 2008 financial crisis.

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The development of economic systems throughout human history indicates evolution. From feudalism to mercantilism to capitalism, economic systems adapt the process of the distribution of goods and services to changes in external stimuli. Just as economics evolves, so does capitalism. This inquiry seeks to establish Neoliberalism as—in the language of Barry Clark—a variant of capitalism that evolved out of retaliation. We first explore what is meant by a variant of capitalism. Next, we analyze the emergence of Neoliberalism as an economic system. Finally, we finish by investigating the adaptations—or lack thereof—following the failure of Neoliberalism as a variant of capitalism. We begin by first establishing capitalism as a system with variants.

Capitalism as an Economic System with Variants

With a myriad of states in the world comes a myriad of economies. The evolutionary nature of economies responding to external forces is the central theme of Barry Clark's (2016) book *The Evolution of Economic Systems: Varieties of Capitalism in the Global Economy*. As the title suggests, variations in economic systems goes hand in hand with the evolutionary nature of economic societies. In

his book, Clark defines ‘varieties of capitalism’ as the array of unique institutions—essential to capitalism—that shape the scope and functioning of the markets. The institutions analyzed in determining a variant of capitalism include private property, wage labor, and the market as the primary governing structure. In a world full of capitalist economies, each facing their own external forces, there have appeared several distinct variants of the capitalist system.

The term Laissez-Faire has been used as an early variant of capitalism. Clark (2016, 116-21) describes this variant as an economy comprising competitive markets for resources and products, existing as the prevalent system in the U.S. from 1815 to 1896. During this phase of capitalism, small businesses were ubiquitous and most economic activity occurred on family farms. Due to its recent independence, infrastructure was very limited, making markets mostly local. The founding fathers saw the independence of the U.S. as a clean slate and a chance to create a system that would become the paradigm in the future to come. While capitalism persisted, industrialization would bring economies of scale, with it came corporations and competitive advantage, allowing businesses to dominate industries unchecked. This resulted in unfair competition and huge financial risks in the failure of these growing corporations. This evolution of small businesses into mergers and monopolies are what characterizes our next variant: Organized Capitalism.

Corporations that used their competitive advantage to drive out or purchase their competition led to a substantiated risk of failure should the corporations fail. Clark (2016, 123-6) recognizes that business leaders understood their huge investments were subject to market instability and sought to mitigate this risk. Thus, the reduction of competition and emergence of cooperation between major industry leaders would earn this variant its name of organized capitalism. Associations and trusts eventually monopolized industries, replacing market control of production with industry control of production. Industrialization also exerted its pressure on wage earners who, sharing a common predicament, banded together to form labor unions in hopes of seizing the bargaining power that machinery had chiseled away. The power of big business won out. Through implementing severe repercussions and exercising underhanded tactics to limit the power and effectiveness of unions, the cooperating industry leaders proved more than capable of facing adversity to their own interests. With the first world war came further cooperation among industry leaders, this time with the government. The need for production of goods for the war would commence the War Industry Board, consisting of businessmen and representatives of industry interests. The board successfully improved production 20 percent. However, following the war and its absence of effective demand, output fell while unemployment rose. With the failure of the finance sector in 1929 came capitalism's next adaptation to U.S.

external forces, one that saw precedence in the War Industry Board: the variant to emerge was regulated capitalism.

Regulated capitalism is embodied in the Roosevelt's "New Deal" and Keynesian economic policy, generally. Clark (2016, 128-129) describes this variant as revolutionary, highlighting the differences between pre-Depression economic ideals and Keynes's alterations. Keynesianism built on prior successes, drawing inspiration from the achievements of social work programs and government involvement in the economy which successfully increased production during the war. The ideas in conflict with pre-Depression organized capitalism included increasing wages, deficit spending, and social welfare assistance which saw a reversal of economic theory as a result of the Great Depression. When Keynes introduced his economic policy, he saw opportunity in the success of economic experiments such as the War Industry Board and attempted to explain why this experiment was successful. In opposition to government regulations in raising wages, corporations increased prices in pursuit of their self-interest. This would lead to a price-wage spiral that marked the end of the regulated system. In retaliation of the policies of regulated capitalism, came its newest form: neoliberalism.

Neoliberalism stemmed from the concerted efforts of 1970s conservative economists pinning the economic problems on government intervention. Clark

(2016,135) characterizes neoliberalism as pertaining to less government spending, lower taxes, fewer regulations, elimination of social programs, privatization of government spending, and the end of fiscal and monetary policy to stabilize the economy. Essentially, all that was proposed by Keynesian theory in fighting the depression were blamed as the reasons for inflation and depreciation of the dollar. Clark (2016, 135) recognizes that it was the individualistic culture and the lack of institutional means to cooperate in halting inflation that gave rise to the economic problems pinned solely on Keynesianism. The neoliberal adaptations came about in a way that was retaliatory to the previous variant, not an adaptation built on the survival of economic systems, but one built in spite of the previous variant.

Neoliberalism as a Retaliatory Variant of Capitalism

As noted above, several variants of capitalism can be identified. These variants emerged as adaptations to the forces exerted on the previous system. By adaptation, we broadly mean changes in the systems as response to external stimuli. Thus far, the adaptations build upon success, much like the adaptations of species of animals and the survival of animals more fit for their environment. Unlike the previous variants, the primary variant this inquiry has indicated as its focus, came not from positive adaptation. It came out of retaliatory adaptation.

Humans evolving from monkeys over time demonstrates evolution as gradual adjustment through positive adaptations. A retaliatory adaptation is one where the change is inspired in spite of an evolution proven to be positive. With the increased presence of government regulation in Keynesianism, neoliberalism emerges as an effort to punish the government, protect the interests of the corporations, and revert back to a flawed system: the retaliatory variant of capitalism.

Neoliberalism exists in the reversal of economic policies that came about with regulated capitalism. Therefore, we can track the retaliatory nature of this variant through analysis of countries and their reversal on such policies as welfare, fiscal, and monetary policies. Also characteristic of neoliberalism is weaker labor and the marketization of services. In the book *Welfare States in Transition*, John Myles (1996, 117-37) writes the section on the progression of welfare policies and economic tendencies following World War II until present. Myles (1996, 118) illustrates that the neoliberal response to the economic dips of the 1980's shifted focus away from social programs and towards full employment through decreasing labor, implying a neoliberal tendency to lower wages and increase job creation to combat the unemployment rate. While admittedly successful at reducing unemployment, the inequality that grew from these policies illustrates that wage-earners were in fact no better off while corporations enjoyed increasing profits as a result of cutting costs. This increase in wage inequality exhibits a direct

retaliation to the Keynesian economic principle that states wage earners with increased wages can contribute more to the economy by actively participating in the market. Marketization of services indicates more neoliberal retaliation of the former regulate capitalist system.

Marketization in the neoliberal variant of capitalism focuses on the reversal of social welfare policies. Myles (1996, 120-1) exemplifies this by outlining the social policies postwar and after the emergence of neoliberalism. The American system of healthcare experienced dramatic changes after the Second World War. Introduced by Lyndon Johnson in the 1960s, Medicaid and Medicare indicated an embracing of social welfare policies at the federal level. Neoliberalism's emergence saw the chiseling away of these social benefits and a focus on market-based income security and private social benefits. The result was a core of high wage workers with generous social benefits and a secondary labor market with low wages and limited security. The neoliberal concept challenges the assertion that it is retaliatory in nature by claiming the markets as the most efficient allocation of resources. In comparing Canada's national health care system with the privatized American system, it is quite apparent that the costs are significantly higher in the latter, implying marketization of healthcare has not only increased costs of care, but also created mass inequality in the distribution of those health services. This

would eventually cause increasing polarization in the culture of the U.S. as inequality rose like never before.

The political climate today is the result of the changes in culture during the rise of neoliberalism. Clark (2016, 139) notes that neoliberals in their quest for the dominance of free markets paired with social conservatives seeking to restore traditional American values. This is a clear divergence from the progressives defending separation of church and state, women's reproductive rights, social justice, and cultural diversity. Clark (2016, 139) claims that the lack of social capital that has developed since the rise of neoliberalism a likely reason for the limitations in productive potential of the U.S. economy.

As a variant of capitalism, neoliberalism stands at a crossroads. Following the 2008 "Great Recession," the free market principles that were central to the collapse of the economy saw a glimpse of scrutiny. While Clark (2016,142) argues that the demise of neoliberalism is apparent in this crisis, attributing its success in reducing production costs and increasing profits inhibited consumer spending and resulted in a pool of financial capital that the U.S. economic capacity could not utilize for productive use. A leading scholar on the topic of neoliberalism, Phillip Mirowski, provides insight into how he asserts that Neoliberalism has escaped unscathed from its inherent failures of the 2008 financial crises.

Responding to the Failure of Neoliberalism

Phillip Mirowski's (2013) book *Never Let a Serious Crisis Go to Waste* is an inquiry into the neoliberal thought collective and its role in the 2008 recession. As noted above, Clark (2016, 142) has identified the 2008 crisis as a result of the inherent flaws of the neoliberal variant of capitalism. Mirowski agrees with Clark in this assertion, however, they differ in their thoughts on the aftermath of the crisis and its effect on the neoliberal variant of capitalism. While Clark asserts that the future is open ended and that the Great Recession marks the end of the neoliberal variant of capitalism, Mirowski's (2013, 157-8) investigation has led to the assertion that the neoliberal response has evaded all responsibility for having laid the foundational conditions for the crisis to take place, escaping the crisis—as an ideology—unscathed. In fact, Mirowski goes so far as to purport that collectively, the neoclassical orthodoxy behind neoliberalism, has emerged more dominant in academia and government across the since the start of the Great Recession.

Mirowski (2013, 161) admits to the blame associated with the economics profession following the crisis in 2008. However, there came little to no

punishment and only dodgy responses to the often-proposed question of “how did you not see this coming?” The economic orthodoxy in neoclassical theory responded with “we did, only with a failure in imagination”. This led to a plethora of explanations behind the financial meltdown and would graduate to bickering, defamation, and slander between professional economists trying to both evade and assign blame amid the economics profession being questioned in its capabilities and use. Thus, the neoliberal response of economists was to make the failings personal and idiosyncratic in nature, positioning the blame away from the neoclassical theories behind the economics orthodoxy. Mirowski (2013, 164) notes that the embodiment of the neoliberal denial can be found in Raghuram Rajan’s statement that “it was not so much ideology, as it was hubris” that led to the financial meltdown responsible for the 2008 Great Recession. Neoliberalism was granted immunity despite its failure to predict and explain the economic crisis. This immunity was granted through the neoliberal relationship with the financial sector, the Fed, and universities.

Mirowski (2013, 194-215) establishes that the economics profession was integrated with both the financial sector and its regulatory bodies, implying that if both the Fed and the financial system sheltered the storm of the economic crisis, so to would the economists involved. This is supported by Mirowski’s observation of selected figures leading the economics profession—in both the academic as well as

in the public spheres—could be judged as suborned by the financial sector.

Mirowski's (2013, 206) first example is the former head of the National Economic Council and top economic advisor during President Obama's administration, Larry Summers, and his activities with financial entities and his receipt of millions of dollars from various financial firms. Summers was directly responsible for deciding who would be rescued during the aftermath of the financial crisis.

Mirowski (2013, 208-9) provides further examples found in Martin Feldstein and Gary Gorton, tying them directly to the key crisis institution AIG. These two economists have significant influence and maintain positions as economists in Harvard and Yale respectively; they also held positions in the National Bureau for Economic Research (NBER) and the Council for Economic Advisors. Ultimately, the academic-governmental-financial complex is what Mirowski attributes a layer of immunity to those economists whose theories persevered through the crisis they helped bring about. Mirowski recognizes an additional layer of immunity in the form of commercialization of university research.

Mirowski (2013, 216-8) notes that the neoliberal doctrine of the market as being the ultimate information processor necessitates reform of the university monetization of knowledge. This is illustrated by the neoliberal dominance over executive positions in many prominent universities such as Harvard, Princeton, Chicago, and Yale. This has been a concerted effort by the neoliberal collective

since 1980 and is evident in the shrinking of humanities and focus on money in these academic curricula. Mirowski broadens this assertion by noting studies and censuses that point to a significant increase in economic faculty, one such study asserts an increase of economists from 1% of all faculty to 4%. Given the dominance of neoclassical economists and the reform of universities since the 1980s, the neoclassical orthodoxy has and will continue to experience immunity from economic crises.

Conclusion

In summation, this inquiry has sought to establish that neoliberalism can indeed be identified and also categorized as a variant of capitalism. This is supported by evidence in the progression of U.S. variants of capitalism found in Barry Clark's (2016) book *The Evolution of Economic Systems: Varieties of Capitalism in the Global Economy*. We then recognized the retaliatory nature of neoliberalism as a unique adaptation to the regulated capitalism variant. Finally, we recognized the immunity of the economic orthodoxy following the Great Recession and the neoliberal response to the crisis. The neoliberal variant of capitalism should be recognized as a retaliation against government regulation, penetrating the institutions responsible for adapting our economic systems; furthermore,

neoliberalism as a variant of capitalism will continue to persist through the crises its theories cause, despite being foundational to the problems that caused it.

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