Why are Neo-liberal Ideas so Resilient in Europe?

Vivien A. Schmidt and Mark Thatcher

Despite the economic crisis that hit the US and Europe full force in 2008, political leaders have made little attempt to rethink the neo-liberal ideas that are in large part responsible for the boom and bust, let alone to come to terms with how immoderate the ‘Great Moderation’ really was. Much the contrary, neo-liberal ideas continue to be the only ideas available. In the financial markets, where the crisis began, deregulation remains woefully inadequate, while the only ideas in play are neo-liberal, either for more ‘market-enhancing’ regulation or in favor of greater laissez-faire. The biggest puzzle, however, is the response to the crisis by Eurozone countries that have embraced ‘market discipline’ through austerity and, in so doing, have condemned themselves to slow or no growth. This is in contrast to the US, which has posted better economic results, despite being torn between Republican fundamentalists advocating austerity and a more pragmatic leadership focused on growth.

Our question, then, is: How do we explain the resilience of neo-liberal economic ideas? Since the 1980s, why have such ideas not just survived but continued to be dominant? Neo-liberalism entails belief in competitive markets enhanced by global free trade and capital mobility, backed up by a pro-market, limited state that promotes labor market flexibility and seeks to reduce welfare dependence while marketizing the provision of public goods. The watchwords for such neo-liberalism are liberalization, privatization, deregulation, and delegation to non-majoritarian institutions such as ‘independent’ regulatory agencies and central banks. The touchstones highlight the importance of individual responsibility, the value of competition, and the centrality of market allocation. The neo-liberal mantra presents the state as the perennial problem, the market as the solution—even today, despite the fact that the crisis was caused by the markets, not the state.

So why, in light of the crisis, has there been no major shift in ideas, either back to the neo-Keynesianism that brought the postwar ‘Golden Years’ or forward to something new? How do we explain the fact that neo-liberalism continues to permeate how people think and talk about state and market? We propose five lines of analysis to explain such resilience: the flexibility of neo-liberalism’s core principles; the gaps between neo-liberal rhetoric and reality; the strength of neo-liberal discourse in debates; the power of interests in the strategic use of ideas; and the force of institutions in the embedding of neo-liberal ideas.

First, the generality of neo-liberalism’s core principles, focused on competitive markets and a limited state, make it highly adaptable to changing circumstances and needs. Thus, neo-liberalism has been able to move from ideas focused on the ‘rollback’ of the state to free up the markets in the 1980s under conservative leaders to the ‘rollout’ of the state to make markets work more freely under progressives in the 1990s. It has also been able to absorb seemingly contradictory ideas, as in the case of the welfare state, where after an initial clash with social democratic ideas, through attempts at passive reduction of social
spending and job protections, it incorporated such ideas in programs that sought to make active use of the welfare state to promote market efficiency via ‘active labor market policies.’ Finally, it has equally been able to undergo metamorphoses such that ideas discredited in previous periods recur, returning in new guises, such as the 1920s discourse of ‘sound money’ reappearing in the 1970s as monetarism and in the late 2000s as ‘sustainable debt.’

Second, neo-liberalism often works only in the rhetoric, not in the reality of implementation. Notably, many neo-liberal policies – such as cutting public spending, reforming welfare, and reducing regulatory protection – are difficult to implement and extremely unpopular politically. This helps explain why promises to cut back the state for the most part turned out to be hollow, in particular as state restructuring did not lead to a decrease in its size, nor did it necessarily reduce public spending. Deregulation, rather than getting rid of the state, simply led to reregulation of a different kind. But rather than a weakness, this can be seen as a strength, since lack of implementation can serve neo-liberal politicians also as a rallying cry, to call for more neo-liberalism.

Third, neo-liberal ideas have generally been more successful in policy debates and political discourse, winning in the ‘battle of ideas’ against weaker alternatives. In some cases, that strength may come from the seemingly common sense nature of neo-liberal arguments. For example, appeals to the ‘virtue’ of sound finances using the metaphor of the household economy—extrapolating from the need to balance one’s household budget to the need to do the same for the state budget—may resonate better with ordinary citizens than the Keynesian counterintuitive proposition to spend more at a time of high deficits and debts. In other cases, neo-liberal success can be attributed to the reframing of current problems—say, as a crisis of public debt rather than of the banks; to the narratives—about public profligacy being the problem, belt-tightening the solution; and to the myths—for the Germans, that belt-tightening is the only way to avoid the risks of hyperinflation of the early 1920s, thereby ignoring the risks of deflation and unemployment of the early 1930s that led to the rise of Hitler. Equally importantly, it may be that neo-liberals are not so strong but their opponents are weak. Where, after all, have the center-left parties been in all of this, in particular in Europe throughout the Eurozone crisis? Notably, only very recently have European social democratic leaders called for growth, even as they continue to dole out austerity.

Fourth, powerful coalitions of interests often take up neo-liberal ideas for their own strategic purposes, whether they believe in them or not. Economic actors may benefit materially, notably through lower taxes or the new opportunities opened up by ‘deregulation’ and privatization. Bankers have been laughing all the way to the bank. Politicians also can benefit by using neo-liberal ideas to gain or retain political power while institutional actors—regulators, central bankers, and the like—gain autonomy and increasing power. All of this, moreover, tends to be self-reinforcing, since the more neo-liberalism takes hold, the more it is likely to consolidate such actors’ commitment to neo-liberal ideas, as well as to create an attitude of ‘if you can’t beat them, join them,’ as in the center-left’s adoption of neo-liberal ideas beginning in the 1990s.
Fifth, the neo-liberal ideas gain force from their institutionalization in the rules and regulations, as well as in the institutions, including the ‘non-majoritarian’ independent regulatory bodies such as the independent central banks, the international credit-rating agencies, and the standard-setting bodies that are out of the reach of national state control. Moreover, in the EU, the successive pacts for stability in the Eurozone – beginning with the Stability and Growth Pact that consecrated the 1990s Maastricht criteria for monetary union and culminating with various pacts during the Eurozone crisis – ensure that neo-liberal ideas about fiscal consolidation will be difficult to reverse, regardless of their failure to solve the crisis.

These five lines of analysis leave us with one final question: given all this resilience, is there any way out of neo-liberalism? One pathway could be collapse from within, as the contradictions inherent in neo-liberalism become increasingly clear—such as between the ideal of a limited state and the practice of the state playing a strong role to enhance markets. Another could be rejection from without, as the broken promises, indeed the failures, of neo-liberalism become ever more apparent to citizens. Yet another is that strong ideational alternatives to neo-liberalism gain strength, say, with new approaches to economic governance that put the polity before, rather than after, the economy. It is also possible that neo-liberalism loses the support of powerful interests, or that new coalitions emerge. Perhaps the social democrats will begin to coalesce behind a new set of ideas. Finally, it may very well be that the institutions of neo-liberalism break down, are replaced, or evolve as a result of new coalitions of interests with new ideas about how to solve the problems. But for any of these eventualities, things are likely to become much worse before we see any new light at the end of the tunnel.

Vivien A. Schmidt is Professor of International Relations and Political Science at Boston University; Mark Thatcher is Professor of Comparative Politics and International Studies at the London School of Economics. This piece builds on their argument in their co-edited book, Resilient Liberalism in Europe's Political Economy (Cambridge University Press, 2013). The piece first appeared online in Policy Network http://www.policy-network.net/pno_detail.aspx?ID=4500&title=Why-are-Neo-liberal-ideas-so-resilient