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*Theorizing ideational continuity: The resilience of neo-liberal ideas in Europe*

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...the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than commonly understood. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas.

John Maynard Keynes (1936, p. 383)

When Keynes wrote these lines, he certainly had in mind the influence of the ideas of *laissez-faire* economic liberalism, which he held responsible for the great boom and bust of the 1920s that led to the Great Depression of the 1930s. Today, another form of economic liberalism, neo-liberalism, has supplanted Keynes's own ideas, which had gained dominance in the postwar era. Our task, in this theoretical essay, is to explain how and why the ideas of neo-liberal economists and political philosophers obtained and retained their power in European policy debates and political discourse during the past three or four decades.

We define 'neo-liberalism', at its essence, as involving a commitment to certain core principles focused on market competition and a limited state. Our purpose is to explain the resilience of these core neo-liberal ideas, meaning their ability to endure, recur, or adapt over time; to predominate against rivals; and to survive despite their own many failures. We offer five lines of analysis as potential explanations for such resilience: first, the generality, flexibility, and mutability of neo-liberal ideas themselves; second, the gap between neo-liberal rhetoric and a reality in which they are not implemented; third, their advantages in policy debates and political discourse compared with alternatives; fourth, the power of interested actors who strategically adopt and

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promote neo-liberal ideas; and, fifth, the force of the institutions in which neo-liberal ideas are embedded.

Our focus is primarily on neo-liberal ideas – their intellectual origins, history, and current importance. We recognize that a wide range of other elements also falls under the rubric of neo-liberalism, including institutions, practices, and policies.<sup>1</sup> However, this book is not about these elements or the impact of neo-liberal ideas on institutions, policies, and practices.<sup>2</sup> Rather, it is about neo-liberalism as a set of ideas.

Admittedly, neo-liberal ideas are difficult to pin down because neo-liberalism comes in many different forms, with differing assumptions that often appear contradictory. They are also politically contentious, being the subject of polemics in policy debates and political discourse. For this reason, many scholars have chosen to leave aside the study of neo-liberal ideas to focus on policies, politics, interests, and institutions. As a result, however, they give up without even first attempting to explain one of the main forces in Europe's political economy.

As for our own study of ideas, rather than returning in this essay to the long-standing scholarly debates that address whether and to what extent ideas matter, we take it as a given that they do and seek instead to develop theories about how to explain continuity through the concept of resilience. To do this effectively, we outline a framework for analysing neo-liberal ideas as objects of explanation. We consider different views of how to theorize about the role of neo-liberal ideas, from positivist to constructivist; what forms such ideas may take – whether philosophical, programmatic, or policy ideas – and how they may change over time; and who are the neo-liberal agents of continuity or change.

This introductory chapter begins by defining ‘neo-liberalism’ (or ‘economic liberalism’, as it is also called) within the larger conceptual tradition of liberalism in order to explain what it is and is not for the purposes of this book. We follow this definition with a brief overview of the intellectual origins of the concept beginning in the 1930s and its subsequent transformations, in particular from the 1980s onwards. We then provide an analysis of the ideational roles, forms, and agents

<sup>1</sup> See, for example, Larner 2000, Cerny 2008, Mudge 2008, and Evans and Sewell 2013.

<sup>2</sup> For excellent recent studies of neo-liberal policies and their institutional impacts, see Crouch 2011, Streeck 2011, and Grant and Wilson 2012.

of neo-liberalism. We conclude the chapter with a discussion of how such neo-liberal ideas can be shown to be resilient following the five lines of analysis.

### Conceptualizing neo-liberalism

There is no single definition of neo-liberalism beyond the agreement that it contains a commitment to core principles involving market competition and a limited state. Thereafter there exist important debates and differences in defining what neo-liberalism is and in describing its origins and development.<sup>3</sup>

Sometimes neo-liberalism is portrayed mainly as a political and economic philosophy defining a set of free-market-oriented economic principles and political economic practices promoted in its early years by a loose agglomeration of ‘true believers’.<sup>4</sup> At other times, it is cast as an ideology through which the free-market discourse of the ‘converted’ (i.e., elites in academe, business, journalism, and politics) seeks to persuade the public of the virtues of unfettered markets guaranteeing individual freedom along with material prosperity.<sup>5</sup> In yet other instances, it is presented as a particular approach to governance, in which neo-liberal principles and practices are deployed to liberalize, privatize, deregulate, and rationalize existing markets.<sup>6</sup> However, neo-liberalism has also been portrayed as a political project promoted by social forces to restore capitalist class power via ideas on how to reorganize capital and the social order.<sup>7</sup> The variety of treatments of neo-liberalism also links to debates about its historical context because it emerges from a broader liberal philosophical tradition with its own internal divisions on how to balance state and market, individual liberty and collective endeavour, and economy and society.<sup>8</sup>

<sup>3</sup> See Peck and Tickell 2002; Harvey 2005; Mudge 2008; Brenner, Peck, and Theodore 2010; Cerny 2008; Peck 2010; Boas and Gans-Morse 2009; and Evans and Sewell 2013.

<sup>4</sup> See, for example, Mirowski and Plehwe 2009 and Gamble 2009.

<sup>5</sup> See, for example, Anderson 2000 and Freedon 2005; see also discussion in Ferrera in this volume.

<sup>6</sup> For a discussion, see Steger and Roy 2010 and Peck 2010.

<sup>7</sup> See Overbeek and Apeldoorn 2012: 4–5; Apeldoorn, Drahokoupil, and Horn 2008; Cafruny and Magnus 2003; and Jessop 2002. See also discussion in Schmidt and Woll in this volume.

<sup>8</sup> See, for example, Audier 2012a; Nemo and Petitot 2006; Mirowski and Plehwe 2009; Harvey 2005; and Foucault 2004.

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This debate resulted in neo-liberalism appearing as a somewhat amorphous body of thought with many different ideological strands, normative interpretations, and policy applications in different European polities and in the EU. To provide greater clarity, we briefly outline our own core definition of neo-liberalism and then trace its intellectual history, seeking to take into account its many aspects while pointing to the more specific analyses developed in subsequent chapters of this book.

### *Towards a definition of neo-liberalism*

'Neo-liberalism' here refers to a core set of ideas about markets and the state's role in (or as part of) such markets. Neo-liberals believe that markets should be as 'free' as possible, meaning governed by competition and open across borders, while the state should have a limited political economic role in creating and preserving the institutional framework that secures property rights, guarantees competition, and promotes free trade. (We prefer the term 'market competition' to 'free markets' because the latter is both normatively loaded – who, after all, would be against more freedom? – and misleading because competition depends on the state playing a role.) Just how far market competition extends and just how limited the state should be depends on the strand of neo-liberalism involved. *Laissez-faire* neo-liberals tend to want a strong but highly limited state; anarcho-capitalists or 'hyper neo-liberals' want to dismantle the state as much as possible in order to leave almost everything to the market; and social-market neo-liberals – often called ordo-liberals, following the economic philosophy developed in Germany – embrace a more active state with greater social obligations.<sup>9</sup>

Our use of the term 'neo-liberalism' in this chapter is centred on the strand of economic liberalism as popularized by Margaret Thatcher and Ronald Reagan in the late 1970s and early 1980s, whose discourse promised the reduction of the state and declared their belief in the virtues of competition and 'the free market'. We ignore the hyper neo-liberals, who rarely had significant political influence. We see ordo-liberalism, largely developed in Germany, as constituting a

<sup>9</sup> See Gamble 2009: 70–84 and in this volume; see also Lehmbruch 1999.

more conservative strand of neo-liberal economic philosophy.<sup>10</sup> We include it and, indeed, since the Eurozone phase of the economic crisis, we find that elements of ordo-liberalism have proved highly resilient via the various EU pacts and treaty agreements that reinforce commitments to fiscal austerity.<sup>11</sup>

The watchwords for the new, or ‘neo’, liberalism beginning in the late 1970s and early 1980s – in Europe as in the rest of the world – have been liberalization, privatization, commodification, regulatory reforms, and delegation to non-majoritarian institutions such as ‘independent’ regulatory agencies and central banks, as well as individual responsibility, competition, and enterprise.<sup>12</sup> Colin Hay offers a useful seven-point list of key elements that characterize contemporary neo-liberalism, as follows<sup>13</sup>:

1. A confidence in the market as an efficient mechanism for the allocation of scarce resources.
2. A belief in the desirability of a global trade regime for free trade and free capital mobility.
3. A belief in the desirability, all things being equal, of a limited and non-interventionist role for the state and of the state as a facilitator and custodian rather than a substitute for market mechanisms.
4. A rejection of Keynesian demand-management techniques in favour of monetarism, neo-monetarism, and supply-side economics.<sup>14</sup>
5. A commitment to the removal of those welfare benefits that might be seen to act as disincentives to market participation (in short, a subordination of the principles of social justice to those of perceived economic imperatives).
6. A defence of labour-market flexibility and the promotion and nurturing of cost competitiveness.

<sup>10</sup> See, for example, Foucault 2004 and Ptak 2009 and the following discussion.

<sup>11</sup> See Gamble, Jones, and Schmidt and Woll, all in this volume.

<sup>12</sup> See Hermann 2007; Brenner, Peck, and Theodore 2010; Peck 2001; Cerny 2008; Thatcher and Stone Sweet 2002; and Coen and Thatcher 2005.

<sup>13</sup> See Hay 2004.

<sup>14</sup> Macroeconomic theory has been influenced by these neo-liberal approaches – which were part of the neoclassical economics offensive of the 1970s – as well as by the ‘new Keynesians’, who responded to such approaches in the 1980s. The synthesis has come to be known as the ‘new neo-classical synthesis’ or the ‘new consensus’ that defined macroeconomic orthodoxy until the economic crisis of the late 2000s. Our thanks go to Cornel Ban for this clarification.

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7. A confidence in the use of private finance in public projects and, more generally, in the allocative efficiency of market and quasi-market mechanisms in the provision of public goods.

In summary, neo-liberalism today entails belief in competitive markets enhanced by global free trade and capital mobility, backed up by a pro-market, limited state that promotes labour-market flexibility and seeks to reduce welfare dependence while marketizing the provision of public goods. As such, neo-liberalism can be seen as representing a theory that combines both cognitive and normative ideas about a specific type of capitalist organization of the economy.

At the same time, neo-liberalism is highly varied. It has been adopted, adapted, and applied in differing ways across domains from economic markets to welfare. Equally, national variants have been established across countries that range from traditionally ‘liberal’ economies such as in Britain to statist and corporatist economies, such as in France, Italy, Germany, and the Scandinavian nations, and at both national and EU levels. Definition of the term is made more difficult by the fact that few of those labelled as neo-liberals today actually apply the word to themselves.<sup>15</sup> Indeed, the normative value attached to the terms ‘liberal’ and ‘neo-liberal’ vary greatly. Thus, in the United States, ‘liberal’ refers to centre-left politics, often neo-Keynesian, mildly redistributive, and socially tolerant, and is usually applied pejoratively by the Republican right. In contrast, ‘economic liberal’ in Europe often refers to those on the Right who are opposed to state action and seek to institute the neo-liberalism discussed previously. Moreover, calling someone a ‘neo-liberal’ in the United Kingdom or even ‘liberal’ in Continental Europe is most often used as a label for unpopular views. Finally, in the political arena, economic liberalism can be attached to other philosophical ideas about how to steer the economy, administer the state, build community, and promote the welfare of society. These other ideas may encompass conservative principles, as in the case of Margaret Thatcher’s evocation of ‘Victorian values’<sup>16</sup>; or social-democratic principles, as when Scandinavians sought to ‘save the welfare state’ by

<sup>15</sup> See Boas and Gans-Morse 2009: 156, and Peck 2010: 13–15.

<sup>16</sup> See Martin and Ferrera, both in this volume.

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adding neo-liberal elements; or a ‘third way’ between the two, as in the case of the British Labour Party after the 1990s under Tony Blair.<sup>17</sup>

It is important to note in this context that neo-liberalism is not only a philosophy of political economy, it is also a philosophy of political democracy and the role of the state. It conceives of the polity as consisting of the individual first and the community second, with legitimate state action extremely limited with regard to community-based demands on the individual. Because neo-liberalism places individual freedom ahead of everything else, it perceives state intervention as imposing collective judgements on individuals’ freedom to choose.<sup>18</sup> Significantly, neo-liberal theorizing often portrays the state as more legitimate when transformed into an arm’s-length arbitrator state as compared with the traditional political or administrative state, which it fears distorts markets by enabling certain interest groups to gain political advantage or administrative support through ‘capture’.

*The intellectual origins and development of neo-liberalism*

Disentangling neo-liberalism analytically from other forms of liberalism requires careful analysis. In his chapter, Maurizio Ferrera notes that in Italian, the language itself provides clarification that does not exist in English. *Liberalesimo* refers to the centuries-old Lockean philosophical tradition focused on the constitutional protection of individual freedoms. *Liberalismo* covers a range of different ‘liberalisms’, including the economic, focused on private property and free markets; the political, concerned with rights and democracy; and the social, encompassing welfare rights and collective responsibilities. Finally, only *liberismo* concerns what we have named neo-liberalism, which perceives the free market as primary, resulting in its focus on free enterprise, free trade, and efficiency.

Interwar Vienna of the 1920s witnessed the beginning of such neo-liberalism,<sup>19</sup> with major development occurring during the 1930s and

<sup>17</sup> See Schmidt 2000; see also Schmidt and Woll in this volume.

<sup>18</sup> See, for example, the discussion in Harvey 2005; see also Gamble and Schmidt and Woll, both in this volume.

<sup>19</sup> In the 1920s Vienna, Ludwig von Mises held seminars with regular attendees including Friedrich von Hayek and Fritz Machlup, along with foreign scholars such as Lionel Robbins of the United Kingdom and Frank Knight of the United States. Note that some date the Austrian School’s neo-liberalism to the 1880s, with Carl Menger. See Blyth 2013b.

culminating in 1938 with the *Colloque Lippmann*, the Paris conference centred on Walter Lippmann that brought together a wide range of intellectual, political, and business leaders sympathetic to his thought.<sup>20</sup> At this time, neo-liberalism was conceptualized mainly as a response to the failures of classical liberalism in confronting the challenges of the Great Depression as well as to the perceived dangers from socialist planning. It retained the classical liberal definitions of individuals as motivated by self-interest and of competition as the principle for market functioning. However, most neo-liberals rejected classical liberalism's *laissez-faire* approach to market regulation,<sup>21</sup> insisting instead on the need for a strong state able to establish general rules for markets. This was particularly well developed in the work of Friedrich von Hayek (1944), who rejected both *laissez-faire* and state planning for industry.<sup>22</sup> Neo-liberalism also inverted classical liberalism's basic tenet – that political liberty ensures free markets – and instead argued that economic freedom is essential for political freedom.<sup>23</sup> This claim was the basis of Hayek's (1944) *Road to Serfdom*, as well as the main theme of Milton Friedman's (1962) *Capitalism and Freedom*. By

<sup>20</sup> In the 1930s, in addition to the protagonists of the 1920s (see previous footnote), key figures included Edward Canaan and his disciples in the Economics Department at the London School of Economics, Louis Rougier in France, and the Geneva *Institut Universitaire des Hautes Etudes Internationales* headed by Willam E. Rappard and Paul Mantoux, which provided refuge for a wide range of intellectuals fleeing the Nazis and the war, including von Mises, the German Wilhelm Röpke, and the Italian Luigi Einaudi in 1943. See Plehwe 2009 11–13. Their influence was even felt in Spain in the mid 1940s, when a prominent ordo-liberal (right-wing) economist, Heinrich von Stackelberg, became a visiting professor at the University of Madrid from 1943 until his death in 1946 and, as such, influenced a future generation of economists and policy makers; see Ban 2013. The '*Colloque Lippmann*' gathered a wide range of neo-liberal luminaries such as Rougier, with attendees including von Mises, Hayek, and Röpke, among others, along with Lippmann himself. See, for example, Denord 2007: 89–122, and Audier 2012.

<sup>21</sup> Or, at least, their interpretation of classical liberalism as a *laissez-faire* approach to the markets. In fact, liberalism had developed in many directions, including 'social liberalism' and 'new liberalism' in the late nineteenth and early twentieth centuries. See Freedden 1978.

<sup>22</sup> See Gamble 1996 and in this volume; and Wapshott 2012. See also Schmidt and Woll in this volume.

<sup>23</sup> See Foucault 2004 and Tribe 2009; see also discussion in Schmidt and Woll in this volume.

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putting the economy before the polity, neo-liberalism presented the markets as the neutral solution and the state as the politicized problem.<sup>24</sup> This also enabled neo-liberalism's founding theorists to eschew traditional social ethics and instead to view competition as the moral standard, with competitive markets serving to define merit as well as to justify inequalities of situation, whereas notions of collective responsibility beyond a basic minimum could be perceived as interfering with markets.<sup>25</sup>

The inception of a self-conscious intellectual (or ideological) neo-liberal movement is generally traced back to the postwar period when ideas of state intervention and centralized planning were widespread. An especially important organization was the Mont Pèlerin Society (founded in 1947), which held regular meetings of intellectuals, academics, business people, and political figures, particularly from Europe.<sup>26</sup> The Mont Pèlerin Society brought together, at one time or another, the main figures of neo-liberalism, including not only the expected figures: Austrian thinkers such as Friedrich Hayek, located at the London School of Economics, and one of the initial organizers of the group; US economists such as Milton Friedman, leader of the Chicago School of Economics, and James Buchanan, founder of the Virginia School of public-choice theory; as well as neo-classical economists. There were also German 'ordo-liberal' thinkers such as Alexander Rüstow and Wilhelm Röpke, along with politicians such as Ludwig Erhard, the future Chancellor of Germany, and Alfred Armack-Müller, architects of Germany's social-market economy; Italian thinker and future President Luigi Einaudi; and other well-known figures, such as Karl Popper and Arthur Seldon. Other think tanks promoting neo-liberal ideas were also established, in particular in the United Kingdom (e.g., the Institute of Economic Affairs) and the United States (e.g., the neo-conservative Heritage Foundation).

The postwar neo-liberals opposed 'socialism' and 'collectivism' and were committed to developing an agenda that differentiated itself from classical liberalism.<sup>27</sup> Beyond this, however, there were wide variations in the philosophy as well as in its applications. The previously mentioned books of the (later) 'gurus' of neo-liberalism, Hayek and

<sup>24</sup> See discussions in Gamble and Schmidt and Woll, both in this volume.

<sup>25</sup> See Amable 2011. See also Gamble and Schmidt and Woll, both in this volume.

<sup>26</sup> See Plehwe 2009 and Harvey 2005: 20–22. <sup>27</sup> See Plehwe 2009: 5–6.

Friedman, were ideological tracts, not scholarly works.<sup>28</sup> Moreover, after 1945, ideas of freer markets and limited states were outliers in the ‘embedded liberalism’, dominated by the rebuilding of war-torn economies through planning, the implementation of Keynesian demand management, and the creation of wider welfare states.<sup>29</sup> Only in Germany did ordo-liberalism occupy a mainstream position in economic thinking; but, even there, by the late 1950s, it had been combined with other ideas to form the German model of the ‘social-market economy’.<sup>30</sup>

For most West European countries, neo-liberal ideas came to the fore only after the 1970s, with the perceived failure of neo-Keynesianism to solve the economic crises brought on by the end of the Bretton Woods system of exchange rates fixed to the dollar and by the two oil shocks of 1974 and 1979. Policy makers and parts of public opinion became concerned about governments’ failures to return their countries to economic prosperity and their inability to overcome ‘entrenched interests’ in order to reform effectively. Although the movement started in the 1970s, a major shift in the place of neo-liberal ideas began in the 1980s and onwards. The development of those ideas is a complex phenomenon with important differences by domain and country, as elaborated in the chapters in this volume. Here, whilst recognizing that there exist important variations, we outline a somewhat stylized overview of development, building on Ferrera’s suggestion of an ideational ‘parabola’ (in his case, welfare policy), which is also apparent in the succession of ideas about state reform presented by Schmidt and Woll.

A first phase saw a more radical variety of neo-liberalism defined in both its pro-free market and anti-state positions than the ordo-liberalism in Germany in the 1950s. Its discourse centred on

<sup>28</sup> So much so that one critic insisted when Hayek’s book was first published that it was ‘not scholarship. It is seeing hobgoblins under every bed’. Hansen 1945, cited in Peck 2010: xii.

<sup>29</sup> John Ruggie (1982) used this term to describe postwar political economies that were liberal in their commitment to markets but ‘embedded’ within the broader values of a social community.

<sup>30</sup> The concept of the social-market economy owes much to the theoretical work on ordo-liberalism and the ‘competitive market economy’ of Walter Eucken (1950), begun in the 1930s, in addition to those mentioned previously such as Erhard, Armack-Müller, and Röpke. See Lehmbruch 1999 and Ptak 2009; see also discussions by Gamble and Schmidt and Woll, both in this volume.