The neoliberal counter-revolution in retreat?

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Zealously promoted in the developing countries by the International Monetary Fund (and also the World Bank), neoliberalism has been the dominant global economic ideology since the 1980s. In this historical survey of its hegemony, *Jomo Kwame Sundaram* questions whether the recent, more critical analyses of some of the ideology's failings among both the Fund and mainstream economists mark a real weakening of its hold.

THE US Wall Street crash of 1929 was followed by the Great Depression, which in turn engendered two important policy responses in 1933 with lasting consequences for generations to come: President Franklin Roosevelt's New Deal and the Glass-Steagall Act.

While massive spending following American entry into the Second World War was clearly decisive in ending the Depression and for the wartime boom, the New Deal clearly showed the way forward and would have succeeded if more public money had been deployed consistently to revive economic growth.

Although Michal Kalecki and others had anticipated some of his work, it took a few more years before John Maynard Keynes's General Theory was published in 1936, offering robust theoretical justification for the counter-cyclical fiscal and other policies already instituted, very much contravening earlier received wisdom.

Somewhat tangentially, rather than in parallel, the academic field which came to be known as development economics from the 1950s was anticipated by Central/Eastern Europeans striving not to be left behind by the earlier ascendance of Western Europe and then the United States after the Civil War.

For about a quarter of a century after the end of the Second World War, the 'Golden Age' saw rapid postwar reconstruction in Western Europe, supported by the generous Marshall Plan, arguably the first, largest and most successful development cooperation programme. Similar economic development policies and assistance were introduced in Japan, Taiwan and South Korea, following the outbreak of the Korean War and the establishment of the People's Republic of China.

US Secretary of State General George Marshall understood that inclusive economic development would help ensure a cordon sanitaire against the Soviet-led camp. Thus, thanks to the Cold War, Western Europe and Northeast Asia recovered quickly, industrialised rapidly and achieved sustained, rapid growth with interventionist policies which would be widely condemned by today's conventional wisdom. While national economic capacities and capabilities had to be nurtured to ensure sustainable development, Marshall also recognised that aid should be truly developmental, neither piecemeal nor palliative.

Washington Consensus

The 'Washington Consensus' - uniting the American government and the Bretton Woods institutions [viz., the International Monetary Fund (IMF) and the World Bank] located in the US capital city - emerged from the early 1980s to prescribe neoliberal economic policies for developing countries for the 'counter-revolution' against development economics, Keynesian economics and progressive state interventions.

Macroeconomic policies became narrowly focused on balancing annual budgets and attaining predictably low inflation - instead of the earlier post-colonial emphasis on achieving and sustaining growth and full employment without runaway inflation. A neoliberal wave of deregulation, privatisation and economic globalisation followed, supposedly to achieve and boost economic growth. Economic growth was expected to 'trickle down' to reduce poverty, with broader sustainable development and inequality concerns consigned to the garbage bin.

But the Washington Consensus policies largely failed to sustain economic growth. Instead, those developing countries which achieved rapid growth and structural transformation were typically those which defied the conventional wisdom by adopting pragmatic 'heterodox' developmental economic policies appropriate to their respective circumstances. Meanwhile, financial and other economic crises of various types became more frequent and devastating, undermining sustained growth.

Financial crisis

The 2008-09 financial breakdown, precipitated by the US housing mortgage crisis, has triggered a long recession in the developed economies, postponed in much of the developing world by high primary commodity prices until late 2014. Yet, the financial crisis and protracted economic slowdown since, especially in most industrial economies, has not led to profound changes in the conventional wisdom or policy prescriptions, especially at the international level, despite the global economic integration since the 1980s.

To be sure, the spread of the crisis caused the G20 group of (US-selected) major economies to convene for the first time in a mid-November 2008 White House summit instigated by French President Nicolas Sarkozy. Various national initiatives to save their financial sectors were followed by a UK initiative by Prime Minister Gordon Brown to significantly augment IMF resources. But soon, the appearance of supposed 'green shoots of recovery' led to premature abandonment of fiscal recovery efforts, reinforced by eurozone fiscal rules and the powerful influence of financial rentier interests.

The uneven and lacklustre economic recovery and worsening conditions for many in the world since then have been accompanied by a tremendous concentration of new wealth. Meanwhile, there has been a growing realisation in the West that economic conditions for working people, which had been rising for decades, have been slowly but steadily deteriorating in recent decades.

This has been associated in the popular imagination with globalisation and some of its major manifestations, including increased inflows of cheaper goods and migrants. The popular political, social and cultural reactions have been summarily dismissed by establishments as populisms of one kind or another. The dominant tendency has often been xenophobic and racist, often reinforced by terrorists, including those claiming to act in the name of religion. European social democrats have largely joined the consensus of the financial rentiers, discrediting the 'centre-left' and 'centre-right' and strengthening the 'populist extremisms' of right and left.

Despite this vortex of globalisation, financial crisis, stagnation, rising inequality and populism, somewhat reminiscent of the 1930s, there has been no comparable policy or analytical response and, most certainly, no leadership comparable to the likes of

Roosevelt. Except for some marginal rediscovery of Hyman Minsky's opus, recognition of Robert Shiller's critique of financial liberalisation, celebration of Thomas Piketty's work on income inequality and the like, most policy and regulatory reform initiatives have been national in scope and deeply compromised by influential rentier interests and their lobbyists.

Modest rethinking, modest reforms

Meanwhile, some distinguished mainstream economists have been forced by recent realities to reconsider elements of the conventional wisdom, without requiring abandonment of the creed. To be sure, some of this rethinking is significant, with important policy implications, and could lead to state and collective international intervention mechanisms to rein in the neoliberal paradigm in extremis.

First under the leadership of the then IMF Managing Director Dominique Strauss-Kahn, the Fund's Research Department has contributed to such rethinking, especially on financial regulation, fiscal policy and income inequality. The Fund has been re-legitimised in the eyes of many critics elated by its research findings and their policy implications. To be sure, in many instances, the nature and significance of the research findings have been exaggerated by some erstwhile sceptics pleasantly surprised by the researchers' apparently critical turn. Such research results have undoubtedly broadened the scope of what is deemed acceptable economic policy discourse. But in fact, these research findings have rather limited and uneven consequences for the Fund's operations, including its policy advice and conditionalities.

Meanwhile, the Fund has already begun to backpedal on the views expressed in some of its bolder critical publications, e.g., a June 2016 article in its Finance and Development magazine on neoliberalism's responsibility for slower growth and greater inequality (see following article). Thus, while there has undoubtedly been a welcome shift in the Fund's research findings, it is important to not exaggerate its actual significance.

Much more remains to be done if economic research and policy advice are to rise to meet the challenges of our times. Unfortunately, for the time being, it is not clear that political conditions and leadership are conducive to such shifts in the near future.

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