2009

A Perspective of global capitalism

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A PERSPECTIVE OF GLOBAL CAPITALISM

by

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Bachelor of Arts
University of Nevada, Las Vegas
2005

A thesis submitted in partial fulfillment
of the requirements for the

Master of Arts in Political Science
Department of Political Science
College of Liberal Arts

Graduate College
University of Nevada, Las Vegas
December 2009

UNIVERSITY OF NEVADA LAS VEGAS

THE GRADUATE COLLEGE

We recommend that the thesis prepared under our supervision by

James Soller

entitled

A Perspective of Global Capitalism

be accepted in partial fulfillment of the requirements for the degree of

Master of Arts
Political Science

Jonathan Strand, Committee Chair

Mark Lutz, Committee Member

Dennis Pirages, Committee Member

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and Dean of the Graduate College

December 2009

ABSTRACT

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Since the 1970s, the political-economic structure of global society has undergone drastic restructuring. International political economy is concerned with providing explanations for these changes. This thesis will provide an alternative view of international relations that is often marginalized in the mainstream literature. It will be argued that global society needs to be understood under the historical context of capitalism and the class relations that stem from it. Central to this argument is a Gramscian derived articulation of hegemony. Thus, hegemony will be conceptualized in this thesis as a transnational class that governs over global society through consent and coercion. While hegemony is usually understood as a dominant state or a collection of powerful states, the state-centric perspective that has persisted in international political economy will be rejected. Moreover, the driving force behind the reorientation of production, finance, institutions, ideas and social relations in recent decades is a transnational class movement of capitalism or what will be referred to in this thesis as neo-liberal hegemony. From this perspective, neo-liberal hegemony can be understood as a class configuration of productive forces, institutions, transnational firms, intellectuals, political elites and most importantly the role of ideas.

ACKNOWLEDEMENTS

I would like to extend my gratitude to professor Jonathan Strand in the political science department. Without his guidance, instruction and dedication, I would not have been able to complete this thesis. I would also like to thank the other faculty and staff members of the political science department who have been helpful and supportive since I began the graduate program in 2005. Furthermore, I would like to dedicate this thesis to the following people. First, my mother and father who have worked hard their entire lives without the slightest complaint. It is people like them who represent the true working classes of society. This work is also inspired by and dedicated to the many wonderful people, from different parts of the world, which I have been fortunate enough to meet in the last few years. Lastly, this thesis is dedicated to the lovely, intelligent and beautiful Ms. Yumi Kabasawa.

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CHAPTER 1

INTRODUCTION

Since the end of the Bretton Woods era,[1] the world has undergone a significant structural transformation. Neo-liberalism is a term that is commonly used to describe the contemporary order of global capitalism. This transformation can be attributed to a movement on the right to dismantle the post-war Keynesian policy regime and patterns of redistribution in the third world. In recent years, neo-liberal discourse has persistently won out in the battle of ideas, productive practices and perceptions of common sense pertaining to world order. This has resulted in a profound effect on both domestic and international forces. Moreover, the expansion of free market forces and neo-liberal ideas has engendered globalization.

In the developed north, neo-liberalism has been consolidated through a hegemonic regime of discourse and policy devoted to market fundamentalism and individual autonomy. Along the periphery, it has been imposed on politically powerless populations through development banks, multinational corporations and transnational elites. Despite the rich diversity of global society, a large number of people, including some living in the wealthy north, are subjugated to a one-size fits all version of liberal democracy. Central to the discourse of neo-liberalism is a strong appeal to freedom and democracy. This vision however is becoming increasingly shallow and contradictory as vast populations in the expanding periphery are governed by the antagonizing interests of a small minority.

[1]The Bretton Woods program was implemented in response to financial deregulation that offset the Great Depression. It sought to regulate through a fixed exchange rate, rules for commercial and financial interactions between the advanced industrialized countries.

During post-war Keynesianism,[2] the state provided a modicum of social safeguards and limited transborder flows of goods, services, and capital. In the last few decades however this system has been replaced by the expansion of market forces. Central to this transition has been the role of free market ideas, transnational corporations, private banks, financial institutions and the global restructuring of production. Moreover, the structural power of global capitalism in the early twentieth century rivals or possibly outranks the power of market forces witnessed in the late nineteenth century. Consequently, by the late 1990s, the richest one percent had a combined income that is equal to nearly sixty percent of the world's population. The income of the world's richest five percent was 114 times greater than the poorest five percent. In 1960, the income of 20 percent of people living in developed countries was thirty times greater than 20 percent of people living in third world countries (UNDP 2002: 19). By 1997, the disparity increased to a ratio of 74 to 1 (UNDP 1999: 36-8). With these issues in mind, one purpose of this thesis is to analyze global society from a critical perspective, a perspective that is often marginalized in the study of international political economy.

Building On a Gramscian Perspective

It can be assumed that the study of international political economy is concerned with explaining the complexities of international relations and the implications for the future. Traditional approaches to the field of study have been state-centric perspectives or held an underlying assumption that the expansion of market forces can be understood through an apolitical and objective viewpoint. Approaches such as these however may be severely

[2]Keynesian economics is a macroeconomic theory developed by in the early twentieth century by John Maynard Keynes. Keynes argued free markets lead to inefficiencies and inequality. Therefore, market activity needs to be stabilized under a system of regulations that allows for investment and production while also implementing mechanisms of redistribution.

limited in their power to realistically explain contemporary global society. Moreover, theory should be fluid and elastic in order to keep pace with the changing dynamics of global society. Contemporary theories of international relations therefore need to move beyond state-centrism and understand the fluctuations of global society under the context of historical capitalism and the asymmetrical class relationships. This thesis will draw on insights from Antonio Gramsci's conceptualization of hegemony applied to the contemporary order of global capitalism. Gramsci was a journalist, philosopher and political activist during the time of Italian fascism in the 1920s and 1930s. His theory of hegemony has inspired a significant amount of scholarly research in the field of international political economy and has served as an alternative view in understanding international relations

Beginning in the 1980s, Robert W. Cox almost single handily made Gramsci's theoretical abstractions relevant to the study of international political economy (Cox 1981; 1983). Since then, other scholars often referred to as neo-Gramscians have produced important empirical research that depicts the global restructuring of capitalism in recent history from a critical perspective. Robinson however points out that even some of the neo-Gramscian literature at times does not adequately move past the state-centric perspective of international relations. Instead, it has a tendency to view global hegemony as a transnational network of capitalist interests led by a dominant American state (Robinson 2005: 4). Subscribing to the same view, hegemony is being conceptualized in this thesis in a purer Gramscian notion, which encompasses abandoning the state-centric perspective of the term altogether.[3]

[3]This is not to imply that neo-Gramscian literature that may be somewhat state centric does not provide important theoretical insights about the nature of international relations. Thus, the point here is not to reject

Moreover, global hegemony under a revisionist reading of Gramsci is being understood here as a transnational class movement of capital that persists dialectically throughout global society. This will be referred to in this paper as ‘neo-liberal hegemony’. This transnational class, which has been the driving force behind the structural changes in the international system – what is usually referred to as 'globalization' – has become a governing force in global society. Moreover, by rejecting the state-centric view, which is inclined to understand international relations in regards to the rise and decline of powerful states, the conception of hegemony becomes historically situated and understood in the larger context of global capitalism. Neo-liberal hegemony is a transnational class network consisting of multinational firms, banks, and international institutions such as the International Monetary Fund, the World Bank and World Trade Organization. It also includes first and third world political elites and policy makers as well as intellectuals whose ideas are organic to the interests of this transnational class. Furthermore, central to neo-liberal hegemony is a powerful ideology and discourse centered on free markets and individual autonomy.

Gramsci recognized that hegemony does not always dominate directly, but the ideas centered on it are presented in such a way to appear as common sense to the descending classes (Gramsci 1971: 323-33). Pertinent to this view of hegemony are the role of ideas and ideology that portray a narrow vision of human life that penetrates across space and time. Moreover, it is important to distinguish neo-liberal hegemony as not just a ‘class’, but also as a ‘movement’ that seeks to homogenize the international system under a distorted brand of liberal democracy. This has entailed reconfiguring the economic,

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the existing neo-Gramscian literature, but only to emphasize that international hegemony should strictly be understood as a class.

political and cultural structure of global society in such a way that is conducive with the illiberal economic interests of the bourgeoisie. When neo-liberal hegemony fails to breed consent among the subaltern classes through free market discourse, it often reverts to coercion. An example of this are international organizations such as the IMF which serves as the coercive apparatus of the ruling class in imposing pro-rich free market policies against unprotected populations in the third world. Moreover, Van der Pijl articulates a similar view of hegemony when he says; " Global hegemony is not a matter of single states taking turns as the 'hegemon', but of transnational coalitions of social forces committed to a particular *concept of control*" (Van der Pijl 1997: 196). Thus, hegemony reflects a vision of human social and productive relations that objectifies a way of life over a historical duration of time.

Furthermore, conceptualizing hegemony as a class is not intended to diminish the role of states in the international system. The state has remained an essential feature under the context of modern capitalism. The state however is historically constructed along the lines of class struggle. Therefore, its composition can be seen as a reflection of competing class interest. While it may serve as a buffer against some aspects of capitalism, as was the case under Keynesianism, the contemporary state resembles the hegemonic interests of capital which is often insulated from regulation and planning. Harvey provides a useful insight for understanding the relationship between states and the market. He notes that neo-liberalism perpetrates dialectically across uneven geographical dimensions of time and space. In doing so, the movement toward market liberalization collides against existing state institutions and regulations which either disintegrate against the power of market forces or successfully resist them (Harvey 2005: 87-115). This largely depends on

the existing class positioning within each particular state. In countries where unionization and income equality are high, these forces may be resisted, while in places where income inequality is historically persistent such as in Latin America, states have become susceptible to free market restructuring.

Chapter Overview

In order to further build on the perspective outlined in the previous pages, this thesis will be divided into two parts. The first will be theory driven in order to highlight how a Marxist-Gramscian ontology provides insights into critically understanding contemporary life under capitalism. The second part, chapters four, five and six, will be more empirically focused from a critical perspective in order to convey how the global restructuring of capitalism in recent years has been the result of a transnational class movement. These later chapters will focus on the role of institutions, political figures, policies, intellectuals and ideas in conjunction with each other that have led to the hegemonic positioning of neo-liberalism.

Chapter two will critique what have traditionally been the more mainstream approaches in the study of international political economy. These perspectives may be limited in their explanatory abilities since they derive from a state-centric and seemingly apolitical view of international relations that has historically been at the core of the discipline. These conservative approaches are usually concerned with systems management and objective viewpoints rather than providing any critical evaluations of global society and how it is situated under modern capitalism. The last part of this chapter will include a discussion concerning the role of historical materialism, or critical theory,

in international political economy as a way to highlight how such an approach offers a valuable alternative.

Chapter three will begin with a discussion of Marx's historical materialism. Marx and Gramsci shared the same fundamental vision of modern human life and how it is historically situated in the context of capitalist relations. The second part of this chapter will discuss Gramsci's historical materialism in relation to hegemony. For Gramsci, hegemony is complex and contradictory. Moreover, Gramsci's understanding of hegemony provides an important insight about the nature of global society in the early twentieth century. The last part will further discuss how hegemony can be conceptualized at the international level.

Chapter four will provide a historical overview of the structural transition from post-war Keynesianism to the consolidation of neo-liberal hegemony in the early 1980s. Under the policy regime of Keynesianism, capitalism was subjected to restrictions and controls. Moreover, the upper class during this time was forced to redistribute a substantial share of its income as strong unions and rising wages allowed for a temporary class compromise. Keynesianism began to breakdown in the late 1960s to early 1970s. Consequently, a movement on the right began to organize and instill a new perception of common sense centered on market autonomy. Crucial in this transition has been the role of ideas and the intellectuals who facilitate them.

Chapter five will focus on the events and circumstances that led to the reorientation of third world economies, particularly those in Latin America. Deregulation of international finance in the 1970s coupled with exploding debt in the developing world culminated into the third world debt crisis. Since the 1980s, Latin American countries and much of

the developing world, faced with massive debts, stagnant economies and global institutions preaching free market reforms, have often had seemingly little choice but to undergo structural readjustment policies. Structural adjustment policies are usually predicated on trade liberalization, privatization, deregulation, fiscal discipline and foreign direct investment. These ideas were consolidated under the Washington Consensus, a concise list of policy prescriptions that became a blueprint for economic reforms in Latin America and many other parts of the developing world.

Chapter six will discuss the record of free market reforms in Latin America, particularly those implemented after the Washington Consensus in 1990. There is growing evidence that these policies only hurt developing countries and serve the interests of transnational capitalism. An evaluation of these policies will focus on income inequality, growth and the effects of debt. Furthermore, there is a substantial amount of research in the literature to suggest that free market policies and the institutions that implement them such as the IMF have a negative effect on growth and inequality in the third world. Chapter seven concludes this thesis by pointing out how critical theory enhances our understanding of the evolution of capitalism.

CHAPTER 2

THEORETICAL PERSPECTIVE

The purpose of this chapter is to critique the traditional approaches of international political economy in order to highlight how a critical or historical materialist perspective may provide added leverage in discerning the complexities of the international system. While there are many theoretical perspectives in the study of international political economy, this chapter will discuss the limitations of structural realism and liberal theories of international political economy since they have generally held a hierarchical position of intellectual discourse in the discipline over the past few decades. This critique will derive from a Gramscian perspective for two reasons. First, part of the critical theory approach to international political economy is critiquing the objective materialism that remains prevalent in the field of study. Second, historical materialists are interested in many of the same concepts that are also pertinent to the realist and liberal traditions such as hegemony, structure, market and the state. Furthermore, while historical materialism is often marginalized in the literature of international political economy, such an approach may be more apt in explaining the historical realities of global society (Rupert and Solomon 2006: 12).

Cox conveys that all theory has some purpose; it either serves the interests of the ruling class or acts as an agent for change (Cox 1995: 31).

> Theory is always for someone and for some purpose. All theories have a perspective. Perspectives derive from a position in time and space, specifically social and political time and space. The world is seen from a standpoint definable in terms of nation or social class, of dominance or subordination, or rising of declining power, of a sense of immobility or of present crisis, of past experience, and of hopes and expectations of the future. Of course, sophisticated theory is never just the expression of a perspective. The more sophisticated a theory is, the more it reflects upon and transcends its own perspective; but the initial

> perspective is always contained within a theory and is relevant to its explication. There is, accordingly, no such thing as a theory in itself, divorced from a standpoint in time and space. When any theory so represents itself, it is more important to examine it as ideology, and to lay bare its concealed perspective (Cox 1981: 128).

One theme of this thesis is that all social theory, regardless of whether or not it claims to be objective, is to some extent attached to an ideology pertaining to a perspective of world order. Theories that rest on the Cartesian dualism of object and subject need to be examined for their ideological undertones. The social world is constructed on a second order reality of inter-subjective meanings that are directly produced through human agency (Gill 2003: 16). Gramsci understood there to be no concrete separation between what is objective and subjective in the social order.[4] Theories that seek to explain the international order derive strictly from a value judgment of what is perceived as being good or desirable under certain conditions.[5] What is perceived as being universal and objective only appears so because it is conducive with the prevailing ideological perspective of world order that has succeeded in a competition among other perspectives (Gill 2003: 17).

Moreover, critical theory in the discipline of international political economy is often criticized for failing to be objective and is therefore pegged as being unscientific (Rupert 2006: 10). The same argument however could be made against mainstream theoretical paradigms. An example of this would be the democratic peace theory that emerged

[4] To quote Gramsci: "Objective always means 'humanly objective' which can be held to correspond exactly to 'historically subjective': in other words, objective would mean 'universal subjective'. Man knows objectivity insofar as knowledge is real for the whole human race *historically* unified in a single unitary cultural system. But this process of historical unification takes place through the disappearance of the internal contradictions which tear apart human society, while these contradictions themselves are the condition for the formation of groups and for the birth of ideologies which are not concretely universal but are immediately rendered transient by the practical origin of their substance" (Gramsci 1971: 445).

[5] This is not an endorsement of a strict relativism in which nothing can be discerned in the social world. Rather theory cannot detach itself from the historical reality that is created by collective human agency. Social theory can explain, but only within the parameters of what has already been socially constructed.

following the end of the Cold War. The argument put forth is that liberal democracies do not go to war with each other and therefore it would be in the best interests of international society if every country adopted a version of liberal democracy. This claim is often presented as an objective fact even though a value judgment is already implicitly made before any research is conducted. It is assumed by first world intellectuals that populations of the third world can only be making strides toward progress if they embrace their same vision of life.

The Limitations of Structural Realism and Neo-Liberal Institutionalism

Structural realism is an updated version of realism, deriving from Machiavelli, Thucydides and Hans Morgenthau. Kenneth Waltz and Robert Gilpin are key contributors of neo-realism or structural realism. One of the important distinctions between realism and structural realism is that the emphasis on human nature is replaced in the international system by a structure of anarchy. This might also be referred to as structural anarchism (Waltz 1979: 66-72). For Waltz, the international structure is an inter-state system based on a balance of power. The structure is fixed on a Hobbesian realm of anarchy and chaos. The potential for conflict is decreased when a balance of power exists between powerful states. Another distinction between realism and structural realism is the latter research approach is data driven.

In order to construct parsimonious models, a fixed conception of the state remains the basic unit of analysis. Moreover, the state is conceptualized to remain a rational, individual actor always seeking relative gains in a zero-sum pursuit of power (Waltz 1979: 111). For Gilpin, the main premise in his work is to understand the rise and decline of hegemonic powers in the international system dating back to the beginnings of western

civilization. Similar to Waltz, Gilpin understands states as rational actors that make calculated assessments based on a cost-benefit analysis when attempting to change the system or maintain their hegemonic position (Gilpin 1981: 77, 202). Thus, Gilpin reduces the history of western civilization to a continuous cycle of hegemonic rise and decline. The international order is based on a distribution of power among states. When the hegemonic state can no longer maintain a monopoly on military, economic and technological capabilities, war is the expected outcome, resulting in a new hegemonic order (Gilpin 1981: 33). Whereas a Marxian analysis might see hegemonic change as synonymous with structural change, structural realists maintain a fixed, trans-historical structure cutting across all dimensions of time and space. Thus, one of the general assumptions made is that the world structure has for the most part remained the same since the beginning of western history (Gilpin 1981: 211). Regardless of the changing forms of governance, historical events or modes of production, states remain sovereign and pre-conditioned rational actors seemingly insulated from external social forces.

In critiquing structural realism from a Marxian viewpoint, it might appear easy to claim that these premises are false. Structural realism however provides a view of world history that reveals important insights about the rise and fall of great empires and the general trends and patterns that hold consistent in a broad sense over the course of time. Therefore, a critique of structural realism is not to suggest that it is wrong. Rather, because it is limited by reductionism, such a theoretical perspective often fails to account for the historical realities of the contemporary world order. This stems from an atomistic and static conception of international relations which assumes that the social order can be understood through the lens of scientific rationalism.

Rupert argues that structural realism merely reflects the historically constructed social relations of life under capitalism (Rupert 1995: 32-4). By conceptualizing the state as a pre-conditioned, rational actor and immune from economic forces, structural realism reiterates the historically manufactured reality under capitalism that a formal separation exists between the political and economic spheres of society (Rupert 1995: 32-4). Moreover, structural realism entails a level of analysis that artificially fragments the interplay between domestic and international forces as states are perceived to be rationalized, political actors acting under the influence of self help. In contrast, a Marxian analysis would understand domestic and international forces together as they are historically constructed under capitalism. Furthermore, Rupert goes so far as to say that the rational and autonomous state depicted by neo-realists epitomizes a kind of alienation in international political economy that derives from the social relations of capitalism (Rupert 1995: 34).

A system of atomized states acting rationally under an immutable structure of anarchy becomes synonymous with the pre-conditioned individual in society who is seemingly constrained to a Hobbesian realm of self-help and material calculation. Thus, structural realism also reflects the idea that humans are passive objects in the historical process, which is a precondition for life under capitalism. Whereas a Marxian view of historical society would understand the structure of international relations to be the historically constituted reproduction of human agency, theories grounded in objected materialism such as structural realism atomize humans from the historically specific conditions that make up the prevailing social order.

Another shortcoming of structural realism is the inability to account for the changing nature of the state. Rather than understanding the way in which states are historically constructed under capitalism, structural realism reduces them to a pre-ordained and universal conception. Rupert conveys that such a world view is a reflection of the deep conservatism that is at the core of neo-realism (Rupert 1995: 6). The state is extracted from the social-historical realities and expected to behave in a way in which its material capabilities are maximized and position of power is enhanced or diminished as it competes in a system of self-help. Furthermore, the historically specific productive, ideological and social conditions that sustain the state during a particular temporal period are largely ignored (Rupert 1995: 7).

While basically working under the same theoretical paradigm, liberal theorists of international relations seek to expand and re-articulate the static and atomistic nature of structural realism. This is often referred to in the literature as neo-liberal institutionalism. In looking to create a synthesis between structural realism and liberalism, Keohane attempts to move beyond the deterministic rise and decline of hegemonic states abstracted by structural realists without abandoning the same paradigm of thought (Keohane 1986: 189). Keohane's approach to international political economy remains embedded in the realist paradigm for three reasons. First, Keohane accepts the rationality assumption at the core of the paradigm. In other words, he adheres to the same epistemological view of object-subject dichotomy. Thus, he accepts that the structure is fixed and predicated on at least a minimal state of anarchy (Keohane 1986: 194). Second, Keohane agrees with the assumption that states are the principal actors in the international system. The state however does not remain the sole unit of analysis as equal

or more emphasis is given to individual institutions and non-state actors (Keohane 1986: 193). Third, he accepts the basic assumption that states seek power and calculate in accordance with their own self interests (Keohane 1986: 194).

Where liberal theorists primarily differentiate is in the role of actors. Whereas neo-realists view both the structure and actors (states) as immutable and interacting under ideal conditions of parsimony, liberal theorists such as Keohane assert that because states are rationalized individuals, they can learn to cooperative over time (Keohane 1986: 194). Keohane's theory is premised on the notion that there have been concrete changes in the international system which refutes the simplistic assumption that states are trapped in a perpetual rivalry with each other.[6] Neo-liberal institutionalism derives from the changing nature of the international political economy since the post-war era which has entailed a significant increase in trade among states and the role of institutions that have helped to facilitate economic interdependence. Institutions and other non-state actors then are taken as good and play an essential function in the maintenance of the international system. These non-state actors are viewed from a seemingly apolitical perspective. Therefore, liberal inspired research is usually data driven in order to provide 'objective' empirical evidence that international institutions are helping to foster cooperation in the inter-state system.

[6]Keohane asserts: "The need to find a way out of the trap means that international relations must be a policy science as well as a theoretical activity. We should be seeking to link theory and practice, bringing insights from Structural Realism, modified structural theories, other systemic approaches and actor-level analyses to bear on contemporary issues in a sophisticated way. This does not mean that the social scientist should adopt the policymakers' framework, much less his normative values or blinders about the range of available alternatives. On the contrary, independent observers often do their most valuable work when they reject the normative or analytic framework of those in power, and the best theorists may be those who maintain their distance from those at the center of events. Nevertheless, foreign policy and world politics are too important to be left to bureaucrats, generals, and lawyers" (Keohane 1986: 199).

The liberal approach is presented as a more idealistic and encompassing rebuttal to the pessimistic outlook of structural realism. Whereas structural realists take the struggle between power seeking states as a given, liberal theorists take the expanding global market as a natural manifestation of progressive change. Thus, the cooperation that develops among states derives from a Smithian inspired logic of self-interested individualism for the benefit of the whole. In other words, liberal theorists accept the Hobbesian analogy of self-preservation in the international system, but adhere to a higher social contract premised on trade and cooperation. Liberal theorists of international political economy may slightly disagree over the role of state intervention with some emphasizing market autonomy while others remain sentimental toward Keynesianism. Both sides however usually agree that some level of trade liberalization, limitations on state regulations and the norms associated with these need to be institutionalized within transnational alliances.

Since neo-liberal institutionalism in general is part of the same theoretical paradigm, the before mentioned criticisms that were laid out against structural realism would also apply to neo-liberal institutionalism. The main criticism against neo-liberal institutionalism is the insistence on taking the expanding global market as a given and as apolitical.[7] Liberal international political economy theory can explain international phenomenon such as the interplay between states, institutions and markets, but only as

[7]Neo-liberal institutionalism is not the same as neo-liberalism or neo-liberal hegemony. Neo-liberal hegemony in this paper is taking on a negative connotation. Neo-liberalism entails certain economic policies, institutions and powerful ideas that have been established to serve the economic and political interests of the upper class. Neo-liberal institutionalism is not intentionally tied to the interests of the upper class. Instead, this school of thought seeks to understand how liberal trade facilitates cooperation in the international system. Therefore, neo-liberal institutionalism is correct in depicting the emergence of liberal trade since World War II in a seemingly apolitical way. However, by doing so, it may inadvertently help to foster the interests of global capital by cementing the perception that liberal trade is universal, desirable and the only way of fostering peace and cooperation in modern society.

these have already been constructed under capitalism. Whereas a Marxian analysis also realizes the changing nature of the international system, it does so while recognizing how the changing landscape of global society has been constructed in the interests of capitalism. For liberal theorists, international institutions and non-state actors are taken as a good without ever questioning whose interests they actually serve. Moreover, implicit in the literature of neo-liberal institutionalism is the underlying assumption that an Anglo-Saxon brand of liberal democracy should be taken as a good and desirable. A research paradigm however that employs objective materialism as its methodology ceases to be scientific as soon as its starting point of theoretical departure is predicated on an ethno-centric derived perspective.

Furthermore, in conveying a relationship between the mainstream intellectualism of international political economy and the Trilateral Commission, Gill describes liberal international political economy theory as an 'economic doctrine' and 'political ideology' that serves the interests of multinational corporations, institutions and the advanced capitalist states that maintain a transnational order of global capitalism (Gill 1993: 23).[8] Moreover, the inter-paradigm debate between structural realism and transnational liberalism also highlights an unyielding conservatism that persists in American-centric international political economy theory. While these theories may be facilitated through American universities and presented objectively, the underlying ideological perspectives behind them are often insulated from critique. Oren argues that the bulk of American political science which is presented as objective is more often than not rooted in a

[8]Trilateral Commission is a private organization created to foster economic cooperation between the U.S, Japan and Europe. In his book *American Hegemony and the Trilateral Commission* Stephen Gill argues that the Trilateral Commission represents the emergence of a transnational hegemonic bloc (Gill 1990: 1).

historical or national perspective.[9] Thus, when it is discussed how a state may behave under particular conditions or how certain norms can be understood, these concepts are usually only understood in a way that is beneficial to American or market interests (Oren 2003: 17).

Taken together, structural realism and liberal approaches to international political economy can also be criticized for failing to articulate a realistic understanding of hegemony. Again, this misinterpretation of hegemony in mainstream literature can also be attributed to the same shortfalls mentioned before. Since the late 1970s to early 1980s, both realist and liberal theorists have agreed that the world has been in a phase of hegemonic decline, although they disagree on the outcome. The main thrust of the argument for hegemonic decline derived from the decreasing relative economic power of the United States after a re-built Japan and Europe had gained larger shares of the global market. While the inter-paradigm debate has been correct in recognizing the hegemonic transition that has taken place since the late 1970s or early 1980s, it has been erroneous in understanding this transition as resembling hegemonic decline. This failure to account for hegemony can be attributed to two reasons. First is the insistence within the inter-paradigm research program to maintain a state-centric view of international relations. Although liberal theorists do not put as much emphasize on the state and recognize the role of institutions and non-state actors, they still accept the basic assumptions of

[9] Oren asks: "How do political scientists label a body of thought that bears the mark of a national and historical perspective, yet does not acknowledge that perspective? What term in the vernacular of social science describes perspective-bound human thought that abstains from self-examination and perceives itself as timeless and universal? Political scientists would probably describe such thought as *ideology*. Regrettably they rarely bother to reflect upon the ideological character of their own thought. Political science in America is a historically and nationally rooted ideology as much as an objective science" (Oren 2004: 18).

structural realism. One being that states are rational and principal actors in the international system. The concept of hegemony therefore remains tied to a single state.

The second reason can be attributed to the ideological undertones that remain prevalent in the mainstream literature. One of the main premises of structural realism is the 'hegemonic stability theory' in which one powerful state is needed to maintain stability within the international system. Gilpin assumes that American hegemonic decline will lead to chaos and conflict. In the 1980s, Gilpin argued that the liberal world order established after WWII would soon become unraveled if American political power continued to decline (Gilpin 1987: 394).[10] While Gilpin was right in proclaiming the decline of American hegemony, such a view is related to the interests of maintaining a strong American state. The dire picture of chaos and conflict resulting from the deterioration of post-war liberalism resonates strongly with and provides justification for certain Washington elites who assume that the United States has an obligation to maintain order around the globe.

If Gilpin's assertions about hegemony are in the interests of political power, Keohane's argument could be understood as serving the interests of market forces. Keohane rejects Gilpin's hegemonic stability thesis and argues that hegemony is no longer a pre-condition for international stability because states are rational actors and learn to cooperate through increased economic trade (Keohane 1984: 49-64). Keohane is right in his recognition that increased trade has for the past several decades webbed the international order closer together, but this seemingly optimistic argument by Keohane

[10] Gilpin summarizes his view as follows: "I believe these changes are responses to hegemonic decline and are caused by diverging national interest among the advanced countries. As a consequence of profound changes in the international distribution of power, in supply conditions, and in the effectiveness of demand management, the liberal international order is rapidly receding" (Gilpin 1987: 394).

and other liberal theorists has only served to justify the expansion of global capitalism. In doing so, liberal theorists, for whatever reason, fail to recognize the increasingly asymmetrical class relationship that has correlated with the globalization of capital in recent history.

Moreover, rather than seeing how markets and states are part of the same whole and historically created in relation to each other, structural realist and liberal approaches of international political economy collapse international relations into an artificial division of markets and states. In contrast, because a Marxian analysis of global society examines the whole system as it has been historically constructed under capitalism, a conceptualization of hegemony is able to move beyond the state-centric perspective. Whereas mainstream literature has discussed the relative decline of hegemony since the early 1980s as an objective fact, a critical analysis views the same period of time as the consolidation and ascent of neo-liberal hegemony. Thus, if hegemony is conceptualized within a historical context, then it may take on the form of a state or a class (as is the case now) and provide more explanatory power in discerning the complexities of international relations.

Historical Materialism in International Political Economy

Whereas mainstream theory is limited to the constraints of positivism and objective materialism, a critical theory approach to international political economy includes the role of ideas and productive forces within the international system. Theoretical approaches such as structural realism and liberal variants become circumscribed in their explanatory power due to an insistence on viewing global society through the narrow lens of scientific rationalism. The international system because of its vastness and perplexity

is nearly an incomprehensible social order that should not be reduced to parsimonious abstractions. As asserted before, there is no symmetry between the social order and physical world (Gunnell 1968: 168). Whereas it may be possible to abstract laws that explain the world of physics, the social order is of a second order reality that is constructed over time and space through inter-subjective meanings. Social theory derives from a perspective regardless of whether or not it claims to be objective in its discourse.

Moreover, historical materialism largely distinguishes itself from mainstream international political economy by rejecting the methodological reductionism that reduces the study of international political economy to the interaction among states or the deepening power of institutions which foster liberal trade and cooperation. Instead, historical materialism adopts a holistic approach to international political economy. Thus, the unit of analysis becomes an examination of the entire system and how it persists under the historical realities of capitalism. Rather than positing a static, seemingly immutable structure for the sake of abiding by the stringent requirements of scientific rationalism, historical materialism understands the world through the view of historical structures. Within historical structures are persistent patterns of ideas, modes of production, policy regimes and forms of state that persist across space and over time (Cox 1995: 32; Gill 1995: 63). The state then also should be understood as being constructed and reproduced under the historical conditions of capitalism and class forces. Whereas structural realist perspectives limit the state to a rational, individualized actor, this ignores the productive forces and social relations that form a recursive relationship within state-civil society complexes.

Historical materialism entails a transient conception of world order. While the contemporary world may often be objectified as universal and immutable, the contemplation of structural transformation becomes possible and desirable. As much as a Gramscian analysis is concerned with providing an explanation of world order, it is equally concerned with highlighting the contradictions of life under capitalism that may lead to structural change. Furthermore, history is an ongoing, yet non-repetitive process encompassing a collage of social forces that objectify and produce social reality during a particular period of time. Theory should be fluid, consistent and reflexive in order to account for the transient and sometimes hidden social reality that persists under the historical conditions of capitalism (Gill 1990: 10).

Furthermore, a historical materialism approach to international political economy is ethically driven and therefore offers an alternative view of global society that is usually marginalized in mainstream international political economy literature. Whereas mainstream applications take a seemingly apolitical stance, historical materialism is solely concerned with depicting the historical realities under capitalism in the hopes of contributing to structural change that moves in a progressive direction. Subscribing to the notion that all theory is grounded in a perspective, historical materialism flows from the idea that theory follows reality and has the potential to contribute to a new structure of social order (Gill 2003: 14). Critical theories in the social sciences, including historical materialism, are often criticized for being value driven and not empirically falsifiable. The same argument can be flipped around to criticize positivists for reluctance to offer any value driven substance in their research.

CHAPTER 3

MARX, GRAMSCI, HEGEMONY AND STRUCTURE

In this chapter, the link between Marx and Gramsci's historical materialism will be discussed. This will done in hopes that their radicalized ontology taken together can provide a starting point to better understand the contemporary situation of international relations in the larger context of capitalism. This discussion will also build on the previous chapter by showing how a Marxian approach to international political economy provides an alternative view to the state-centrism and scientific rationalism that is prevalent in the traditional approaches. Most importantly, this chapter will discuss Gramsci's conception of hegemony and how it can further be applied to the international system.

Both Marx and Gramsci provide a radical ontology that was in opposition to much of the social science of their time and which shares a dialectical relationship with much of the social science today. Following a Marx-Gramscian perspective, the global order is no longer reduced to an interstate system of rationalized states or an apolitical approach to the global economy. Instead, contemporary global society becomes historically situated and mutable. For Marx and Gramsci this requires the undressing of the capitalist mode of production in its historical form which leads to an understanding of the historical 'actualities' and makes explicit the historical 'possibilities' which are latent throughout society, but often hidden by the social relations of capitalism (Rupert 1995: 24).

Marx’s Historical Materialism

For Marx, humans are not passive objects in the historical process, but the sole authors of it. History, or specific durations of history, reflects the realization of human thought and action (McLellan 1975: 42). Society is a second order reality that is the direct result of human agency. For Marx, the driving force behind the historical process is human labor. It is through the production process that humans objectify the immediate world around them and the social relations that stem from it as if it were universal and objective (Fromm 1961: 16-7). Marx's historical materialism or what might be called dialectical materialism can be subsumed under an often cited passage in which he says;

> The general result at which I arrived and which, once won, served as a guiding thread for my studies, can be briefly formulated as follows: in the social production of their life, men enter into definite relations that are indispensable and independent of their will, relations of production which correspond to a definite stage of development of their material productive forces. The sum total of these relations of production constitutes the economic structure of society, the real foundation, on which rises a legal and political superstructure and to which correspond definite forms of social consciousness. The mode of production of material life conditions the social, political and intellectual life process in general. It is not is not the consciousness of men that determines their social being, but, on the contrary, their social being that determines their consciousness. At a certain stage of their development, the material productive forces of society come in conflict with the existing relations of production, or-what is a but a legal expression for the same thing-with the property relations within which they have been at work hitherto. From forms of development of the productive forces these relations turn into their fetters. Then begins an epoch of social revolution. With a change in the entire immense superstructure is more or less rapidly transformed. In considering such transformations a distinction should always be made between the material transformation of the economic conditions of production, which can be determined with the precision of natural science, and the legal, political, religious, esthetic or philosophic-in short, ideological forms in which men become conscious of this conflict and fight it out (Marx 2000: 425-6).

From this passage, the conception of Marx's dialectical materialism serves as a foundation of thought for all forms of historical materialism. First, central and most pertinent to Marx's theory is the labor process. The social conditions in which humans

produce and consume has a tendency to objectify the historical order of things as if they were natural, universal, immutable and exempt from human agency. The production process, or the base of the structure, has a way of conditioning and molding ideas, ideology, legality and intellectualism, which forms the superstructure. Second, by designating man as the maker of history through the reproduction of social relations, humans have the ability, although usually hidden by the social relations of capitalism, to recreate society. For Marx, humans remain in a constant struggle with nature in order to meet their material needs. This process however is dialectical and problematic. Moreover, life under capitalism is latent with contradictions and based on an antagonistic class relationship between the proletarian working classes and the bourgeoisie. When the proletariat becomes collectively conscious of these points of conflict, the possibility for revolution develops and collective action can alter the production process and transform the social relations that govern over the entire superstructure. For Marx, the social relations of capitalism are a historical creation of modernity and therefore temporary and a transient feature in the evolution of human social life.

Marx, however, recognized the ability of the bourgeoisie to present the social relations of capitalism as natural, universal and the only viable mode of production under modernity. This is certainly evident in the contemporary world as modern economists discuss privatization, trade liberalization and free markets as if they were objective truths.[11] For Marx, the ability of capitalism to appear as universal derives from two

[11]In discussing fiscal adjustment programs (neo-liberalization) for developing counties, also known as the 'Washington Consensus', John Williamson who coined the term says when referring to the validity of 'free market' economies; "Whereas the superior economic performance of countries that establish and maintain outward-oriented market economies subject to macroeconomic discipline is essentially a positive question. The proof may not be quite as conclusive as the proof that the Earth is not flat, but is sufficiently well established as to give sensible people better things to do with their time than to challenge its veracity" (Williamson 1993: 1332).

aspects of the capitalist system which are also important for understanding the power of globalized capital in the twenty-first century. First, the objectification process under the capitalist mode of production takes on the form of alienation. Second, the economic sphere is able to disembed itself from the political realm of society in both theory and practice as it becomes fortified in civil society and protected by the constitutional state.

For Marx, historically situated human intellectual and material activity is directly tied to the objectification process, or the way in which humans engage with nature. Central to the social relations of capitalism and most essential to his critique is alienation. Under the capitalist mode of production, the objectification process takes on relations of alienation. For Marx, history is a progressive development of humankind, but it is also the further development of alienation as productive activity becomes more sophisticated. Human society can only emancipate itself from estrangement through the development of socialism or what can be understood as a return to humanism (Fromm 1961: 43). While the perpetual movement of history is the direct result of human agency, the inherent social relations of capitalism have a tendency to turn humans into passive objects. Thus, social alienation, which is reproduced through intellectual and productive activity, objectifies the immediate historical situation and obscures humans from the underlying possibilities for collective change.

For Marx, alienation is reproduced in three ways. First, as humans produce under the social relations of capitalism, they become alienated from the items they produce and in turn these products serve only as a way to further empower the owners of production. Thus, the accumulation of capital becomes an alien force that is in direct opposition to the interests of the proletariat. Humans become only a commodity within the production

process and are excluded from determining how and what is produced. The worker does not produce for himself or herself, but only for objects that have no meaning to his or her nature and only serve the interests of the bourgeoisie. “This fact simply implies that the object produced by labor, its product, now stands opposed to it as an *alien being* as a *power independent* of the producer” (Marx 1961: 95).

Second, humans become alienated from themselves. “First, that the work *external* to the worker, that it is not part of his nature; and that, consequently, he does not fulfill in his work but denies himself” (Marx 1961: 98). Work becomes nothing more than a means to physical survival rather than something self-fulfilling and potentially rewarding. The worker then becomes less human and is further estranged from his or her own species. For Marx, the labor process under capitalism has a tendency to produce the self-limited and increasingly dehumanized individual. This is a grave contradiction for Marx since humans to a significant extent are a reflection of how they produce or engage with nature in order to meet their material needs. Rather than engaging in productive activities which are meaningful and beneficial to the community, the worker under capitalism is destined to produce only to meet the shallow interests of material life.

The third aspect is that humans become alienated from each other. “Human alienation, and above all the relation of man to himself, is first realized and expressed in the relationship between each man and other men. Thus in the relationship of alienated labor every man regards other men according to the standards and relationships in which he finds himself placed as a worker” (Marx 1961: 103). Not only do humans enter into a hostile relationship with the owners of production and the objects that are produced, which take on a life of their own, but individuals learn to form an antagonistic

relationship with their fellow workers. Rather than seeking worker solidarity, unionization and cooperation, workers remain fragmented, oppressed and compete with each other in order to secure the means of physical survival. This third aspect of alienation can be used to depict the culture of consumerism that has become hegemonic in the developed world under globalization. Whereas societies of poor populations may become alienated as individuals compete for limited resources, Societies in the advanced capitalist core are also susceptible to fragmentation as individuals are seduced by market fetishisms.

The reproduction of human life under the social relations of alienation is agreeable with the ability of the economic sphere under the capitalist mode of production to detach itself from political controls, which allows the patterns of capital production and accumulation to become insulated from critique. Under capitalism, social relations are predicated on individual autonomy, which persists in the realm of civil society, protected by the constitutional state. For Marx, civil society takes on a derogatory connotation as it becomes the space where 'self-egoism' is able to flourish (Marx 2000: 53-4).[12] It is in the space of civil society where a great paradox in modern society can be found. Constitutional liberalism ensures to the right to human equality and freedom of choice. More importantly, individual autonomy allows for the possibility of political emancipation (Marx 2000: 54). Thus, the social relations of capitalism are not entirely oppressive since the doctrine of liberalism, which is based on individual freedom, grants

[12] For Marx: "The perfected political state is by its nature the species-life of man in opposition to his material life. All the presuppositions of this egotistic life continue to exist in civil society outside the sphere of the state, but as proper to civil society. When the political state has achieved its true completion, man leads a double life, a heavenly one and an earthly one, not only in thought and consciousness but in reality, in life. He has a life both in the political community, where he is valued as a communal being, and in civil society, where he is active as a private individual, treats other men as means, degrades himself to a means, and becomes the plaything of alien powers" (Marx 2000: 53).

the political freedom for collective action to create new relations of human social life. In contrast, individual autonomy also permits the individual to fulfill seductive impulses of self-interest and materialism. Life under liberal capitalism creates a “secular division between political state and civil society” (Marx 2000: 53). Economic activity in bourgeoisie society then becomes regarded as a separate interest and exempt from the possible ramifications that it might impose on the rest of the community. Thus, the rights of humans are reduced to a self-interested egoism. The capitalist is driven only by a right to fulfill his or her material interests and obscured from his or her obligations to the rest of society. In other words, economic activity is de-politicized and seen only as private interests in civil society.

The notion of individual autonomy then is in many ways the crux of modern capitalism. While it grants essential political and individual rights, it also by its nature creates asymmetrical class relationships as wealth is concentrated into the hands of a small minority. Under certain historical situations of capitalism, as is the case today, societies have a tendency to become fragmented and increasingly unequal. Marx says in regards to individual autonomy;

> The first point we should note is that the so-called *rights of man* ,as distinct from the *rights of the citizen*, are quite simply the rights of the *member of civil society*, of egotistic man, of man separated from other men and from the community...the right of man to freedom is not based on the association of man with man but rather on the separation of man from man...The right to private property is therefore the right to enjoy and dispose of one's resources as one wills, without regard for other men and independently of society: the right of self-interest. The individual freedom mentioned above, together with this application of it, forms the foundation of civil society. It leads each man to see in other men not the *realization* but the *limitation* of his own freedom. But above all it proclaims the right of man “to enjoy and dispose at will of his goods, his revenues and the fruit of his work and industry”...not one of the so-called rights of man goes beyond egoistic man, man as a member of civil society, namely an individual withdrawn into himself, his private interest and his private desires and separated from the

> community...it is man as bourgeois, as a member of civil society, and not man as citizen who is taken as the *real* and *authentic* man (Marx 2000: 60-62).

Marx's understanding of the state-civil society relationship resonates strongly in contemporary global society. The transformation of the state in recent history to meet the demands of global capitalism has entailed a neo-liberal state that has become increasingly more preoccupied with catering to the interests of the business class than meeting social needs. Because of this, economic activity has been further liberated in an expanded realm of civil society that transcends state boundaries. The corporation as well as the individual is understood to be an autonomous actor, devoid of any responsibility toward the rest of society or the environment. A conception of individual freedom becomes unfreedom as societies are increasingly fragmented and inhibited by market forces from collectively determining their own political-economic structures. The exploitation of the periphery and contradictions of life under capitalism remain hidden and distorted in the core as a superficial concept of freedom is reproduced and objectified.

Moreover, central to Marx's understanding of history is the importance of class relationships (McLellan 1975: 43). The dialectical process of history is mediated through class struggle.[13] For Marx, class inequality and exploitation of the working classes under capitalism led him to adhere to a deterministic theory in which the proletariat would inevitably overthrow the bourgeoisie, ushering in the next stage of economic development, socialism. While Gramsci accepted Marx's basic assumptions, he rejected the economic determinism of crude Marxist theory. For Gramsci, there was no guarantee

[13]Marx says in the *Communist Manifesto;* "The history of all hitherto existing society is the history of class struggles. Freeman and slave, patrician and plebeian, lord and serf, guild master and journeyman, in a word, oppressor and oppressed, stood in constant opposition to one another, carried on uninterrupted, now hidden, now open to fight, a fight that each time ended, either in a revolutionary re-constitution of society at large, or in the common ruin of the contending classes" (Marx 1959: 321).

that capitalism would be replaced by a proletarian world order nor could such a transformation come about through a violent revolution. Instead, capitalism may persist in various forms under different historical structures.

Gramsci and Hegemony

Gramsci was also concerned with the emancipation of humans from the self-limiting relations of capitalism and the transformation to the self-determining society. He opposed the idea that humans were isolated beings, exempt from the historical process and restricted from the possibility to collectively change it. Following Marx, he understood history to be an ongoing development which is constantly mediated and understood through humans' relationship with nature (Gramsci 1971: 34-35). While working in the Marxist paradigm of thought, Gramsci's ideas become applicable to the study of international political economy through his modification of Marx's base-superstructure abstraction, which is replaced by a complex concept of hegemony. He accepts the base-superstructure foundation conceived by Marx, but refutes it to some extent as being too narrow, rigid and deterministic.[14] Gramsci believed that theory had to be elastic and fluid to keep pace with the ongoing historical process (Cox 1983: 162-63).

Therefore, Gramsci was able to modify the base-superstructure into what he referred to as a 'historic bloc' or a complex configuration of productive forces, ideas, institutions and social relations. The historic bloc is composed of the structure and superstructure. The structure is formed by the prevailing mode of production and the social relations that stem from it. The superstructure is the realm of ideas, ethics and political orientations.

> Structures and superstructures form an 'historic bloc. That is to say the complex contradictory and discordant *ensemble* of the superstructure is the refection of the *ensemble* of the social relations of production (Gramsci 1971: 366).

[14]However, it is debatable how deterministic Marx's theory actually is.

Gramsci rejects the seemingly one-way causality of Marx's theory in which the mode of production automatically shapes the ideas of the overriding superstructure. Instead, the structure and superstructure are part of same whole that form an ongoing dialectical relationship with each other. Thus, the structure of society cannot be reduced to strictly the economy or the realm of ideas, but is a reflection of the recursive and complex relationship between the two.

Central to a historic bloc is a hegemonic social class that brings the structure and superstructure together (Cox 1983: 168). Hegemony then entails much more than the material and bureaucratic functions of a state, but is the leading class which is able to facilitate and curry the structure and superstructure of the historic bloc into a cohesive hegemonic order. In bourgeoisie hegemony, the ruling class takes on the role of leadership and forms a link between the subordinate classes taking part in the production process and the ideas of the superstructure which are in the interests of the bourgeoisie. Gramsci derived his conception of hegemony from the western state. He understood the western state to mean the 'extended state', encompassing not only the administrative and political apparatus, but also the space of civil society where the ruling class is able to govern through consent. Gramsci's conceptualization of the advanced western state derived from his comparison to it with the Russian state in the early twentieth century.

> In Russia the State was everything, civil society was primordial and gelatinous; in the West, there was a proper relation between State and civil society, and when the State trembled a sturdy structure of civil society was revealed. The State was only an outer ditch, behind which stood a sturdy system of fortresses and earthworks (Gramsci 1971: 238).

In the advanced western states, civil society is well developed and active. It is in the space of civil society where the leading class socializes the subordinated classes in the prevailing hegemonic ideas and material practices.

For Gramsci, hegemony is constructed on two 'superstructural' levels; civil society or the 'private' and political society or 'the state' (Gramsci 1971: 12). The hegemonic or dominant class exercises its power to govern through the private institutions of society. The ideas of the hegemonic group are oscillated and circulated through the church, economy, political parties, educational system, community organizations, academia, media and so forth (Gramsci 1971: 342). It is through these institutional channels that the hegemonic class is able to harbor 'consent'. The dominant class is able to obtain 'spontaneous' consent from the 'great masses' because its holds a historically situated image of 'prestige' which grants a position of intellectual and productive authority over the descending classes (Gramsci 1971: 12). The state, meaning the bureaucratic and legalistic side, serves as the coercive apparatus of hegemony. The state legally enforces discipline on subordinate groups that fail to consent either actively or passively (Gramsci 1971: 12).

Consent is consolidated in civil society when the hegemonic class is able to present a rational set of ideas, which appear as common sense. In bourgeoisie hegemony, 'common sense' is not necessarily 'good sense', but only appears as good sense in a way that advances the narrow economic interests of the ruling class (Gramsci 1971: 323-33). Thus, hegemony in many ways can be understood as common sense. Rooted in common sense is a prevailing ideology that is legitimated through an appeal to rationality. A political-economic regime becomes hegemonic when the ideology that rationalizes it wins out in a

struggle for common sense in civil society. When subordinated groups fail to consent to the hegemonic ideology and the social relations that stem from it, they may be conditioned to do so by coercive means. Thus, groups within society may consent to common sense voluntarily or hegemony may be imposed on them through arbitrarily methods. This may largely depend on the class status of an individual or group. For some, consent to hegemony encompasses material and social benefits, while for others it entails further subordination and marginalization.

For Gramsci, pertinent to the construction of common sense is the role of intellectuals who facilitate and foster ideas within the different strata of society. Intellectuals are broken up into two camps; organic and traditional. Organic intellectuals play the larger and essential role in the consolidation and maintenance of hegemony. The organic intellectuals provide awareness and breed economic, political and social homogeneity for the social group in which they are organically tied to (Gramsci 1971: 4). For Gramsci, the organic intellectuals within bourgeoisie hegemony are the technocrats, entrepreneurs, legal experts, economic experts and other professionals who contribute in organizing the masses and advance the interests of capital (Gramsci 1971: 5). These are men and woman who often function as ‘specialist’ in the emergence or preservation of the hegemonic class (Gramsci 1971: 6).

For Gramsci, traditional intellectuals are typically artists, scientists, professional intellectuals, philosophers and so on (Gramsci 1971: 9). These intellectuals often claim to be independent and autonomous from the dominant group (Gramsci 1971: 7). However, Gramsci thought that this claim by the traditional intellectuals was misleading and led to wide-ranging consequences within the field of intellectualism (Gramsci 1971: 7). This

stems from his conviction that all intellectual thought is to some extent attached to an historical situation. Thus, Gramsci articulated that an important function of hegemony is the ability of the dominant class to assimilate and ideologically conquer the traditional intellectuals (Gramsci 1971:10).[15] An example of this could be the mainstream approaches to international political economy that were discussed in chapter two. While these theories are presented as autonomous from the dominant group, from a Gramscian perspective, they are a reflection of hegemonic class interest.

Gramsci and Counter-Hegemony

What is important to distinguish is that unlike Marx, civil society for Gramsci was something much more than simply an empty realm of 'self interested egoism'. Gramsci rejected a noxious conception of civil society and instead understood it to be the site where not only hegemonic ideas prevailed, but also the space where counter-hegemonic ideas could be fostered and eventually challenge the leading class. Thus, in the advanced western states, civil society becomes the space of class struggle over a prevailing perception of common sense. Gramsci referred to counter-hegemony in capitalist states as a 'war of position' in distinction to a 'war of movement'. In countries with less developed civil societies Gramsci reasoned that the state could be directly overthrown through the use of force, as was the case in Russia during the 1917 revolution. This would be considered a 'war of movement'. In places where civil society is more advanced and fluid, such as in the advanced capitalist states, a 'war of position' would have to be waged.

[15]Gramsci puts it as follows: "One of the most important characteristics of any group that is developing toward dominance is its struggle to assimilate and to conquer "ideologically" the traditional intellectuals, but this assimilation and conquest is made quicker and more efficacious the more the group in question succeeds in simultaneously elaborating its own organic intellectuals" (Gramsci 1971:10).

In a war of position, counter-hegemonic forces would have to build institutions, networks and promote a discourse through the various outlets of civil society in order to challenge the prevailing hegemonic order. A counter-hegemonic movement would also entail the reorganizing of productive and consumption practices in a way that would link together the various subordinated classes. Counter-movements would have to become self-sufficient and establish a new political-economic structure that distinguished itself from the ruling class. A counter movement must establish itself as something different from the prevailing order, but it may resemble it is some ways because it exists under the same historical conditions (Cox 1983: 165). However, Gramsci thought that a counter-hegemonic movement could not be expected to quickly succeed the hegemonic order, but would require a considerable amount of time and patience (Gramsci 1971: 239).

Moreover, counter-hegemony can only be successful if it is able to challenge the prevailing conception of common sense. Gramsci understood the prevailing hegemonic ideology or common sense not to be entirely homogeneous or unproblematically dominant (Gramsci 1971: 323-34). Instead, common sense or the prevailing hegemonic discourse persists dialectically across space and time. For Gramsci, hegemony is contradictory and fragmentary (Gramsci 1971: 419-25). The interplay therefore between hegemony and counter-hegemony is in many ways an ideological struggle fought out in civil society. Just as the bourgeoisie class educates the masses through the institutions of civil society, counter-hegemonic forces would also have to re-educate the subordinate classes through institutions that have some autonomy from the prevailing order. Whereas organic intellectuals are essential in fostering the narrow interests of the bourgeoisie class, it is also possible for organic intellectuals to arise among the working classes. Such

as those of the Bourgeoisie, the organic intellectuals of the subaltern working classes would also be tied to the production process (Hoare and Nowell-Smith 1971: 4). Organic intellectuals of this type would seek to abolish the separation of economic and political life that is presented under Bourgeoisie rule (Hoare and Nowell-Smith 1971: 4).

Gramsci also stressed what he referred to as the 'active politician' when contemplating the possibility of counter-hegemony. Gramsci was concerned with 'effective reality' or the 'is' and what 'out to be' (Gramsci 1971: 171). For Gramsci, the statesman and the political scientist works within 'effective reality', meaning he or she is only concerned with the way things are, which in effect helps to maintain the prevailing structure (Gramsci 1971: 172). Gramsci derived his conception of the 'active politician' from the works of Machiavelli, who he considered not to be a political scientist, but an active politician; "but Machiavelli is not merely a scientist; he is a partisan, a man of powerful passions, an active politician, who wishes to create a new balance of forces and therefore cannot help concerning himself with what out to be" (Gramsci 1971: 172). Thus, Gramsci conceived of theory as not only explaining the historical actualities, but also serving as a tool to guide social change.

> The active politician is a creator, an initiator; but he neither creates from nothing nor does he move in the turbid of his own desires and dreams. He bases himself on effective reality, but what is effective reality? Is it something static or immobile, or is it not rather a relation of forces in continuous motion and shift of equilibrium? If one applies one's will to the creation of a new equilibrium among the forces which really exist and are operative-basing oneself on the particular force which on believes to be progressive and strengthening it to help it to victory-one still moves on the terrain of effective reality, but does so in order to dominate and transcend it (or to contribute to this). What "ought to be" is therefore concrete; indeed it is the only realistic and historicist interpretation of reality, it alone is history in the making and philosophy in the making, it alone is politics (Gramsci 1971: 172).

From this statement, Gramsci seems to imply that the active politician or counter-hegemonic forces operate between the historically constructed ‘is’ and the ‘ought to be’. The active politician does not create from nothing, but applies his or her will and seeks to alter the equilibrium through what is historically possible. Thus, the ‘ought to be’ exists within the ‘terrain of effective reality’ (Gramsci 1971: 172).

Hegemony at the International Level

Central to the modern structure is a strong relationship to hegemony. At the international level, the dominant structure within a competition of structures can be understood in a Gramscian sense as an 'historic bloc' or cohesion of material conditions, ideas and political institutions. Neo-liberal hegemony then is the prevailing international class movement which perpetrates dialectically against existing ideas, institutions and productive patterns. While the state remains an essential component of the international system, hegemony cuts across state boundaries and links together dominant ideas, production patterns, institutions and transnational networks of elites and intellectuals. As discussed in chapter one, the Gramscian conception of hegemony in the study of international political economy has largely been developed by Robert Cox.

> Hegemony at the international level is thus not merely an order among states. It is an order within a world economy with a dominant mode of production which penetrates into all countries and links into subordinate modes of production. It is also a complex of international social relationships which connect the social classes of the different countries. World hegemony is describable as a social structure, an economic structure, and a political structure; and it cannot be simply one of these things but must be all three. World hegemony, furthermore, it is expressed in universal norms, institutions and mechanisms which lay down general rules of behavior for states and for those forces of civil society that act across national boundaries-rules which support the dominant mode of production (Cox 1983: 171-2).

Neo-liberal hegemony is strongest at the core through 'consent' and understood in a more distorted form in the periphery. Since the expansion of neo-liberal capitalism is prone to uneven development and gross disparities in wealth, the core and periphery are often located in close proximity to each other. Neo-liberal hegemony most potently exists in particular capitalist states, but as accumulation continues to be concentrated, it is reproduced and concentrated in certain financial hubs within the core. These are not only spaces where wealth is concentrated, but also geographical areas were ideas are circulated, often through well-funded think tanks and by powerful business, intellectual and political elites (Peet 2007: 21-3). This has created affluent islands of contentment, surrounded by the marginalized poor and working classes. An example of this could be the dichotomy in wealth between the prosperous core of San Francisco and the impoverished areas of Oakland, California.

Neo-Liberal Hegemony and the State

Conceptualizing hegemony as a class movement is not to diminish the role of the state in understanding world order. From a Gramscian perspective, the state is a class based entity. In other words, it is a struggle between the ruling capitalist class and working classes which maneuver against each other in order to gain leverage. Since state-society complexes serve as sites of positioning between the capitalist class and subordinated classes, the state is a dialectical creation which can exist in various forms as it is historically situated. The movement of neo-liberal hegemony can be seen as an attempt to capture the state and homogenize it in accordance with the interests of global capitalism.[16] Whereas mainstream approaches portray the state as an ahistorical

[16]This should not be misinterpreted with instrumental forms of Marxism in which the state is viewed primarily as an instrument of the capitalist class. Instead, the state is being understood here as a historical

abstraction, insulated from economic activity, in this sense, the state is historically constructed and a reflection of the current hegemonic-structure. Thus, the neo-liberalization of the state in recent years is a movement to weaken the power of the state to regulate the market and further disembed capital from political controls (Blyth 2002: 17-30). Furthermore, while neo-liberalism to some degree may be understood as a movement to homogenize the international system of states toward a market civilization based on individual rationalism, it will always be countered and develop in varying ways as it oscillates through resistance and specific circumstances (Peet 2007: 13).[17] Since the state in the Gramscian sense is understood as the site of class struggle, neo-liberal capitalism is always susceptible to some form of state control. Moreover, states may embrace components of neo-liberalism for different reasons and under varying circumstances. Thus, the ideas of neo-liberalism may be embraced in the form of consent in places such as the U.S. and Britain or used as a way to enhance competition as in the case with China. In other cases, free market policies have often been imposed on the developing world through indirect forms of coercion. An example of this has been the draconian structural adjustment policies that have been used in the third world in the past three decades by international financial institutions such as the International Monetary Fund and the World Bank. This will be discussed in more detail in chapters five and six.

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construction in which subordinated and marginalized classes possess some level of autonomy and ability to maneuver and reclaim power from ruling capitalist class. An example of this could be the current socialist movement in Venezuela under the direction of Hugo Chavez.

[17]Richard Peet's discussion of the geographical dimensions of hegemony is worth quoting at length: "Clearly the world is not a homogenous space, in class, ethnic or spatial terms. Hegemony conceived in the centre has to be creatively 'translated' to fit many local contexts… Or it can be thought of in terms of space, and often ethnicity was with local intellectuals translating the latest ideas from New York, London or Paris into languages and terms that regional peoples can understand. Then too, this whole process of hegemony construction and translation is not a smooth operation whose end is known from the first instance. The great thing about ideas is that they can always be countered. The great thing about thought is that is can be silent. Specifically, countering the hegemony of a broadly defined ruling class mean, for Gramsci, constructing a 'counter-hegemony 'as part of class struggle" (Peet 2007: 13).

Moreover, Marxist oriented scholars often note that a strong tension exists between the hegemonic discourse of individual autonomy and collective efforts by populations to determine the role of the state that is in the interests of the working classes and the marginalized poor. Liberalism, in its classical and 'neo' meaning, places strong emphasize on the right to individual autonomy and a person's right to choose. However, when individuals come together and collectively choose to regulate markets, form unions or enact policies centered on income re-distribution, this is often branded as a movement toward despotism in the western media (Harvey 2005: 69-70; Rupert and Solomon 2006: 48; Gill 1997: 51-76) While developing countries are encouraged to industrialize and embrace a shallow version of liberal democracy, they are strongly dissuaded from constructing societies that might be complementary to the cultural and social patterns of that particular country. Marginalized populations of both the first and third world are free to choose so long as it doesn't deviate too far from the narrow, economic interests of the ruling class.

Moreover, the vulnerability of the developing world to the authoritarian nature of the free market is not to imply a notion of neo-imperialism. In other words, neo-liberal hegemony should not be reduced to one or a few powerful capitalist states that impose their wills on poor countries. While the United States is often depicted as a hegemonic power or in a state of hegemonic decline, this portrayal ignores the deep division between classes that also exist within America. As the growing disparity in wealth and movements of migration continue to prevail, it could be argued that many parts of America are taking on characteristics of a third world country. Moreover, Harvey points out that the core fundamentals of neo-liberalism have usually only been partially

implemented by states (Harvey 2005: 87). Therefore, the transformation of the welfare state to one increasingly predicated on individual autonomy, deregulation and trade liberalization is not to imply that the majority of states in the current world order strictly adhere to the axioms of market fundamentalism, but rather neo-liberal hegemony penetrates and affects states in different ways and across uneven geographical lines.[18] Neo-liberal discourse may be strongly opposed in one state (e.g., Venezuela), strongly institutionalized in another (e.g., United States) or only make slight inroads in a country where a heavily regulated market system already exists.

Sweden could be depicted as an example of the last case. Historically, Sweden has been characterized as an actively entrenched welfare state guarded by strong trade unions and high expectations for social benefits. (Harvey 2005: 112-3). In the 1970s, the business class and the sanctity of private ownership came under a serious threat by labor. This began with the enactment of the Meidner plan (wage earner funds), which was a policy intended to redistribute the means of production from the concentrated business class into the collective hands of the workers (Blyth 2002: 205). While the policy allowed for labor to take a hegemonic position over capital during the 1970s, it also ignited a counter-movement by the business community (Blyth 2002: 207).[19] Furthermore, the profit margin for the business class was squeezed even more when the global recession in

[18]Harvey purports that "A moving map of the progress of neoliberalization on the world stage since 1970 would be hard to construct. To begin with, most states that have taken the neoliberal turn have done so only partially-the introduction of greater flexibility into labour markets here, a deregulation of financial operations and embrace of monetarism there, a move towards privatization of state-owned sectors somewhere else. Wholesale changes in the wake of crisis (such as the collapse of the Soviet Union) can be followed by slow reversals as the unpalatable aspects of neoliberalism become more evident. And in the struggle to restore or establish a distinctive upper-class power all manner of twists and turns occur as political powers change hands and as the instruments of influence are weakened here or strengthened there. Any moving map would therefore feature turbulent currents of uneven geographical development that need to be tracked in order to understand how local transformations relate to broader trends" (Harvey 2005: 87).
[19]The Meidner plan was a wage earner fund in a 20 percent tax was imposed on all corporate profits that were distributed back into a collective workers' fund that was then reinvested into the corporation, allowing for the workers to control a significant portion of the company.

the early 1970s hit the OECD countries (Blyth 2002: 206). The Swedish Employers' Federation (SAP) began to mobilize from the mid-1970s onward by increasing membership and funding that was used to mount an ideological campaign against unionization and the Meidner plan (Blyth 2002: 209). Expenditures for the SAP increased from 60 million krona in 1975 to nearly 200 million in 1988 (Blyth 2002: 211).

Consequently, the conservative party came into power in the late 1970s for the first time since the 1930s. However, because unionization remained strong, they were unsuccessful in rolling back the wage earner fund. The SAP then turned up the intensity of its ideological campaign against the fund (Blyth 2002: 212-3). To do this, it reached out to academia, including a Nobel Prize winner in economics, Assar Lindbeck, who challenged the conventional wisdom of Sweden's embedded liberalism at the time (Blyth 2002: 216). This began an alliance among business leaders and intellectuals who viewed Sweden's heavily fortified welfare state as an obstacle to individual freedom and democracy (Harvey 2005: 113). These sentiments continued to be fostered throughout the media, academia and conservative think tanks during the 1980s (Blyth 2002: 223-5).

By the mid-1980s, the ideological campaigns were paying dividends and some level of neo-liberal reforms were implemented (Blyth 2002: 224). The movement on the right was also augmented by the left's inability to fight off economic stagnation and inflation. Eventually, the unions agreed to curtail wage increases as a way to fight inflation and moderate deregulation was enacted in the banking industry. This led to speculation in the housing market, credit allocation and tax cuts for the wealthy (Blyth 2002: 226-7). By the early 1990s, the Swedish government was running into deficit problems and high levels of inflation. The SAP blamed the problem on the welfare state and called for further

privatization of social services. Privatization did occur, but not nearly to the same extent as other OECD countries such as the United States and Great Britain. Moreover, Blyth concludes that while the business class was able to muster increased support in Sweden, public sentiment for welfare programs still remains high (Blyth 2002: 246). Harvey describes the limited success of business interests in Sweden as a 'circumscribed neo-liberalism' (Harvey 2005: 115).

Conclusion

Viewing society through the Marxist-Gramscian ontology provides leverage in understanding the dynamics of modern capitalism. Gramsci's articulation of hegemony, which includes the role of ideas, is particularly important for breaking away from the traditional state-centric view and envisioning a more realistic interpretation of the current global situation. Under this conceptualization, hegemony can be seen as a transnational class that perpetrates under an historical duration of time and space. Moreover, the concept of historical structures that has been developed in the Gramscian inspired literature provides additional leverage for understanding the global restructuring of production, ideas, forms of states and patterns of social relations that has occurred during the last three or four decades. Building on this perspective, chapter four will entail a broad historical overview of the transition from post-war Keynesianism to the hegemonic ascent of neo-liberalism.

CHAPTER 4

KEYNESIANISM TO NEO-LIBERALISM

Neo-liberal globalization or what Stephen Gill calls 'market civilization' can be examined from several different angles (Gill 2003: 118). It has already been articulated throughout this paper that neo-liberal hegemony should be understood as a capitalist class movement which permeates dialectically throughout the global system. In an effort to make a brief, yet concise articulation how neo-liberalism came to power, the roles of ideas, intellectuals, acts of coercion and reorganization of institutions and productive practices will be examined. The ascent of global capitalism in recent decades should not be misunderstood as the natural manifestation of economic life nor as a vast conspiracy, but rather as the direct result of human agency driven by an ideological perspective of world order. Important to understanding how structural transformation in global society has occurred in the last three or four decades is the role of ‘organic intellectuals’ (e.g., academics, business elites and political leaders) in oscillating the ideas germane to the class movement of neo-liberal hegemony. Moreover, this chapter will not be an exhaustive account of the transformation to neo-liberal hegemony, but will attempt to provide a broad historical overview beginning with post-war Keynesianism.

Neo-Liberalism Defined

Neo-liberalism can be understood in two different ways: a social-economic theory or a capitalist class movement. Harvey refers to the latter as the 'restoration of class power' (Harvey 2005: 9). As an economic theory, it derives from the classical liberalism of Adam Smith, David Ricardo and John Stuart Mill. Neo-liberalism is an updated version of classical liberalism that was developed by Milton Friedman, Frederick Hayek and

many others associated with the Austrian and Chicago School of economics. Neo-liberal or neo-classical economists often produce scientific models to demonstrate that the market functions most efficiently when individuals are left free to make rational decisions in the exchange of goods and services.[20] Moreover, it is also asserted that the market can serve as the governing force of society if individuals are allowed to pursue their own self interests. Furthermore, although neo-classical economists may disagree over certain details, central to this perspective is the idea that political freedom cannot exist until economic freedom is first established.

As a political discourse, neo-liberalism asserts that the role of government should be diminished as much as possible and that any government interference only undermines the efficiency of the market (Jessop 2002: 453). It is assumed that stable democracy can only be achieved if the market functions as the sole mechanism to shape human thought and behavior. Moreover, there may not be a clear agreement on how neo-liberalism is interpreted between academic and political elites (Panizza 2009: 10). In other words, intellectuals may adhere to economic liberalism strictly out of ideology, while state leaders may often implement neo-liberal policies for political purposes; mostly that it has a tendency to marginalize the lower classes, making it easier to concentrate power in the upper classes.

Post-War Keynesianism

The movement of history does not occur by way of an invisible force of inertia, but is the direct result of human agency applied to the historical process. The social order is

[20]Hayek argued that human knowledge is limited to one's immediate surroundings. Thus, the price mechanism is crucial in allowing individuals to make rational decisions. Consumer choice would then ensure that the market worked in an efficient and equitable manner. This is in contrast to socialist planning in which the state would control the price of consumer goods. For Hayek, this leads to the negation of individual freedom (Hayek 1944: 49-50).

never static, is an ongoing dialectical struggle between competing class interests over the role of ideas and material practices. However, capitalism is a social movement which creates the inclination for exponential growth, expansion and accumulation which ultimately leads to a precarious concentration of wealth into the hands of a small minority. While Marxism may appear as an obvious challenge to capitalism, pure Marxism, just like orthodox liberalism is a utopia idea that seems nearly impossible to achieve on a global level. What is a direct threat to the bourgeoisie class is when Marxist derived ideas (i.e., collectivism) are embraced in the developing world and sentiments of full employment and high taxes on the rich become part of a common sense perception in the first world.

In the post war years, such a situation was developing. The drive to accumulate by the bourgeoisie was curtailed by Keynesianism in the north and developmental projects in the south. These policies became ingrained in a 'common sense' ontology of world order because of their relative successes. The core of Keynesianism was centered on an American led liberal political-economic order constituted by a junior partnership between business and labor (Rupert 1995).[21] This led to strong unionization, even in the United States, high productivity and increased working wages. This class compromise also included a commitment to full employment and substantial investments in social welfare programs. Nations devastated from the war, including Europe and Japan were able to rebuild quickly. Moreover, this construction of consent was attributed to the ability of the mixed economy to deliver substantial growth and exponential increases in real wages

[21]In his book *Producing Hegemony,* Mark Rupert articulates how an American centered historic bloc in the post-war years predicated on a cooperative relationship between labor, business, mass production and consumption. A mode of production and consumption built around 'Fordism 'produced a hegemonic order that was emulated to some extent around the globe (Rupert 1995).

throughout the 1950s and 1960s (Harvey 2005: 11). Furthermore, a consensus emerged in the post-war years that both capitalism and communism in their raw and ideologically driven forms were failures that needed to be discarded in favor of the right mix of markets and social institutions. In the aftermath of the Great Depression, in which stark income inequalities and unregulated capitalism plunged the world into a state of economic misery, Keynesianism policies, such as those outlined in the New Deal provided safeguards against market forces and protections for the working classes. Moreover, classical liberal economics of the late nineteenth century had been replaced with 'embedded liberalism' (Ruggie 1982: 383). Valdes notes that Keynesian derived policies became synonymous with notions of economic wisdom, pragmatism and common sense (Valdes 1995: 59).

The policy of import substitution industrialization was implemented in many parts of the developing world. This was particularly the case in parts of Latin America. The development projects in the third world centered on building a strong state that invested heavily in infrastructure, school systems, universities and other amenities of modernity. More importantly, it also embraced policies geared toward unionization, the nationalization of industries and social solidarity. While much of the developing world remained decades away from catching up to the north, parts of Latin America were able to make relative strides. In Latin America, families living below the poverty line decreased from 51 percent in 1960 to 40 percent in 1970 (Sheahan 1992: 37). During the post-war era, countries such as Argentina and Chile were successful using this strategy in achieving steady growth and relative gains of social equality. Argentina possessed the largest middle class in South America by the 1950s and strong, influential worker's

unions gained significant power throughout the southern cone of the continent (Klein 2007: 67). Chile was an exceptional case in the post-war era. It was a country at the time that was highly democratic, stable and non-aggressive. Moreover, it went beyond Keynesian policies in favor of a more state planned economy. Not only were these redistributive policies implemented by Chilean governments in the post-war era successful, but they were brought about in a peaceful and democratic manner. More significantly, the leftist governments of Chile were serving as a model to the rest of the developing world. This in turn made it a perceived threat to the conservative U.S. business class (Roxborough 1976: 72-3).

The Antithesis to Keynes

In summation, a 'situation' was being objectified in the post-war era in which the majority of the population in the North embraced some form of embedded liberalism and developing countries maintained enough autonomy that allowed them to carry out state planned economies. In many parts of the world, labor possessed enough power to reach collective bargaining agreements and demand wage increases. More importantly, the common sense perception of welfare capitalism and elements of redistribution meant that the capitalist class was being forced to redistribute a large percentage of its wealth. Before the Second World War, the richest 0.1 percent of Americans received 6 to 9 percent of the national income. During the 1950s and 1960s, this amount decreased to nearly 2 percent. Interestingly enough, the amount went back up to around 6 percent by 1988 (Peet 2007: 86). Moreover, leftist, state planned economies in the South meant that the post-war bourgeoisie were burdened with a shortage of cheap, surplus labor. From the perception of business leaders, industrialists and powerful think tanks, the market had to

be liberated from the constraints of the state and a new perception of world order would have to be crafted in the interests of capital accumulation (Valdes 1995: 60).

While the transition toward neo-liberal hegemony began in the 1970s, a 'war of position' by the right, emboldened by neo-liberal economic theory began in the immediate post-war years. During the time when Keynesian ideas were dominating the western world, the still marginalized ideas of neo-classical liberalism were being developed and circulated within small, but powerful circles of academics, corporate executives and political leaders (Plehwe 1993: 269-70). For the most part, these ideas which would eventually come to rule the world were developed by academics in the Chicago School and Austrian School of economics who became the key 'organic intellectuals' of neo-liberal hegemony. Most notably were Frederick van Hayek and Milton Friedman who working together with other prominent economists employed scientific rationalism in their research to 'objectively' demonstrate how markets would behave more efficiently if they were liberated from the constraints of the state.

In ending the Great Depression, the New Deal policies entailed massive government spending, public works programs and state intervention. Whereas the New Deal policies were often championed as democratic, neo-classical economists such as Hayek interpreted them as despotism.[22] The Hayekian critiques of welfare capitalism and state planning were embraced by American political and business conservatives who were fearful that the New Deal policies would eventually lead America down the same path of totalitarian socialism that was being witnessed in the Soviet Union (Blyth 2002: 77).

[22]Hayek wrote in 1944 that "For at least twenty-five years before the specter of totalitarianism became a real threat, we had progressively been moving away from the basic ideas on which Western civilization has been built. That this movement on which we have entered with such high hopes an ambitions should have brought us face to face with the totalitarian horror has come as a profound shock to this generation…that socialism means slavery, we have steadily moved in the direction of socialism" (Hayek 1944: 12-3).

Hayek, who was part of the Austrian School of economics, eventually took a position at the University of Chicago. Although there are some differences between the Austrian and Chicago Schools, both schools adhere to similar axioms of thought, including the idea that true freedom cannot be found where there is no economic freedom. In 1947, intellectuals from both the Chicago and Austrian Schools along with business and political elites created the Mont Pelerin Society. The main objective was to develop an intellectual critique that could directly challenge the welfare state. This can be summed up in the founding statement of the society in 1947:

> The central values of civilization are in danger. Over large stretches of the earth's surface the essential conditions of human dignity and freedom have already disappeared. In others they are under constant menace from the development or current tendencies of policy. The position of the individual and the voluntary group are progressively undermined by extensions of arbitrary power. Even that most precious possession of Western Man, freedom of thought and expression, is threatened by the spread of creeds which, claiming the privilege of tolerance when in the position of a minority, seek only to establish a position of power in which they can suppress and obliterate all views but their own. The group holds that these developments have been fostered by the growth of a view of history which denies all absolute moral standards and by the growth of theories which question the desirability of the rule of law. It holds further that they have been fostered by a decline of belief in private property and the competitive market; for without the diffused power and initiative associated with these institutions it is difficult to imagine a society in which freedom may be effectively preserved (www.montpelerin.org).

In the early stages of development, the fundamental ideas of neo-liberal discourse such as market liberalization and limited government remained confined to a small, although powerful, circle of elites. As an economic theory, neo-liberalism still existed along the periphery of academia. During the post-war years, most of the economics departments in major American universities were dominated by Keynesianism. However, Phillips-Fein explains that neo-classical economic ideas deriving from the Chicago School and

Austrian School were beginning to make significant inroads in the field of economics, science and business (Phillips-Fein 2009: 281-5).

Furthermore, these organic intellectuals were not only interested in reinvigorating the ideas of classical liberalism, but they also envisioned themselves as defenders of freedom against what they perceived as the encroaching anti-freedom of the welfare state. Thus, while using scientific rationalism to create models which provided persuasive empirical evidence to discredit Keynesian liberalism, intellectuals such as Hayek and Friedman represented the then marginalized class who subscribed to a concept of freedom that derived from the classical liberalism of Adam Smith and David Ricardo. The hardship of the Great Depression and the devastation caused by World War II had propelled a large portion of the world's population to embrace social policies that to some extent entailed sacrifices of individual autonomy for the betterment of the community. The original neo-liberal intellectuals sought a return to liberalism in its most pure form. Von Mises argued that the "point of departure of all liberalism lies in the thesis of the harmony of rightly understood interests of individuals" (Von Mises 1983: 183).

A rejuvenated conception of freedom that highly prioritized the rights of individual autonomy over the state continued to gain recognition and was popularized during the 1950s and 1960s in books such as Hayek's *The Road to Serfdom* and Friedman's *Capitalism and Freedom* (Van Horn and Mirowski 1993: 166-7). Moreover, the early discourse on neo-liberalism developed by members of the Mount Pelerin society and the Chicago School of economics provided a powerful intellectual and philosophical response to the prevailing discourse of Keynesianism. Hayek argued that an entire generation of people in the western world at the time had forgotten the true concept of

freedom that not only derived from the enlightenment, but was rooted in the foundations of Christianity and the intellectuals of ancient Greece and Rome (Hayek 1944: 13-5). For Hayek, even minimal forms of state planning would eventually become infringements and obstacles to the sacrosanctness of private property and consumer choice (Hayek 1944: 105). Because state planning and liberalism formed an antithetical relationship, there could be no harmony between the two. Hayek argued that any form of state intervention, even the moderate doses prescribed in United States, would ensure an eventual outcome of totalitarianism (Hayek 1944: 43-55).

Friedman, along the same lines as Hayek, argued that political freedom could only be achieved through the emancipation of economic freedom (Friedman1962: 7-21). He claimed that history had provided clear evidence to show that political freedom could only be achieved under a free market system (Friedman 1962: 7). Friedman argued as an objective fact that capitalism was the only viable system compatible with democracy. Similar to Hayek, Friedman viewed even minimal forms of state planning as an act of coercion by the state and a suppression of individualism (Friedman 1962: 13). He argued that in modern societies, the only mechanism that could ensure freedom to the masses was the market. For Friedman, it is through the voluntary exchange of the market that coercion can be suppressed and cooperation through an appeal to rational individualism can ensure freedom (Friedman 1962: 15). Thus, the neo-liberal intellectuals of the post-war era were playing a significant role in reviving and circulating a classical liberal appeal to individual autonomy that for a marginalized group of conservative business leaders, politicians and intellectuals was being distorted and in some cases suppressed, by the mixed economy.

Structural Transition: From the 1970s Onward

It is generally understood that the policy regime of Keynesianism began running into trouble by the late 1960s and early 1970s. This in turn would further create a space in civil society that would allow for the previously peripheralized ideas of neo-liberalism to expand and become hegemonic. There are a few reasons that can be attributed to the demise of embedded liberalism. First, after delivering high rates of growth in the post-war boom, Keynesianism began to slow down. Capitalism entered into a crisis of accumulation as growth substantially flattened out by the early 1970s. The preceding years of stability were suddenly replaced by sharp spikes in both unemployment and inflation. During much of the 1970s, the term 'stagflation' was used to depict the global economic slowdown (Harvey 2005: 12). The stagnation in growth, inflation and unemployment allowed for many in the previously marginalized neo-liberal camp such as Friedman and Hayek to openly criticize Keynesianism (Peet 2007: 71). However, it is important to highlight that growth in the OECD between 1961 and 1980 still maintained an average of 3.5 percent under Keynesian economics, while between 1981 and 1999 (neo-liberalism), growth only managed to grow at 2 percent (Pollin 2003: 133). While growth substantially began to decrease in the late 1960s and early 1970s, the rate of decline was relative to the boom years of the 1950s and 1960s. Nevertheless, the perceived crisis of Keynesianism during the early 1970s allowed for neo-classical liberalism to make significant inroads within the intellectual community of academia as well (Peet 2007: 71). Harvey notes that by 1990 all economics departments at major American Universities were dominated by neo-classical economists (Harvey 2005: 56).

Another important aspect about the period of stagflation was the falling rate of profit that U.S and European firms were experiencing. The rate of profit decreased from around 20 to 23 percent in the early 1960s to 13 percent by the early 1980s (Dumenil and Levy 2004a: 23). Unemployment also increased from 4.6 percent to 7.7 percent during this time in the U.S. and from 1.8 percent to 6.1 percent in Europe (Dumenil and Levy 2004a: 24). The economic downturn of the 1970s was also exasperated by the OPEC[23] oil shocks of 1973 and 1979. The high oil prices of the late 1970s proved to be detrimental to the import substitution industrialization projects of developing countries that were heavily reliant on the importation of oil. Many of the same countries that were affected by OPEC were also beginning to suffer from high rates of inflation and public debt after taking out unfixed interest rate loans from newly deregulated international banks (Rupert and Solomon 2006: 46-7). Moreover, state-run economies in the developing world were successful in achieving substantive levels of equality, but catching up to the material living standards of the OECD countries remained a lofty ambition (Bello 1999: 1).

It was also during this time that Fordism, the prevailing mode of production and consumption deriving from an U.S. oriented hegemonic bloc, was beginning to be weakened by increased competition in the manufacturing sector (Rupert and Solomon 2006: 41). In the aftermath of World War Two, Fordism was coalesced with Keynesian social policy to incorporate strong unions in the U.S. and other advanced capitalist nations which were able to wield significant bargaining power in gaining concessions (Rupert and Solomon 2006: 38). The majority of U.S. firms operated under a collective agreement with labor which ensured that as productivity increased, so would the real wages of workers. Real wages for non-managerial workers increased by 125 percent

[23] The Organization of the Petroleum Exporting Countries.

between 1929 and 1966 and continued to increase until the early 1970s (Rupert 1994: 169). The middle class quickly expanded in the U.S. during the post-war years and unionized workers were encouraged by mass marketing to take part in a culture of consumerism. This fostered a structure of mass production and consumption in the U.S. which was emulated to some extent in the other advanced capitalist states (Rupert and Solomon 2006: 39). However, after Europe and Japan recovered from the war and were forming their own versions of Fordism, the competition to export manufactured goods substantially intensified.

U.S. firms no longer operated within a comfort zone of dominance. Furthermore, newly industrialized countries (NICs) that had previously been confined to producing raw materials under conditions of colonization began to employ a relatively cheap surplus of labor to produce their own manufactured products which penetrated into the world market (Held 1999: 171-75). Consequently, U.S. and European firms were faced with a direct threat to profit which meant that Fordism and state planning in the south had to be disassembled in favor of more flexible systems of lean production (Rupert and Solomon 2006: 175-81). This initiated a full assault on the collective bargaining power of labor, unionization and worker solidarity. Since the 1970s, this has been coupled with the rise of multinational corporations which have increasingly shifted manufacturing operations away from the developed core and into developing countries where a seemingly inexhaustive and often disorganized labor force is employed to produce a wide variety of consumer products (Rupert and Solomon 2006: 46-7).

Furthermore, the reorganization of the relationship between labor and the owners of production was significantly affected by the rapid decline of transportation and

communication costs. Since the 1970s, this has allowed for the drastic mobilization of capital and for production to become increasingly more flexible and specialized (Harvey 2005: 92). Rupert and Solomon point out that what distinguishes neo-liberal globalization from the lassie faire capitalism of the late nineteenth century is the ability of powerful multinational corporations to utilize the reduction in transportation and communication costs in making it substantially more difficult for labor to organize (Rupert and Solomon 2006: 44-5). This is largely attributed to the changing nature of production. A company that manufactures scooters might in name be attached to a particular country, but the various parts of the product may be assembled in different geographical places according to the price and availability of skilled labor and the cost of transportation. Thus, local populations become vulnerable to capital flight and external market forces which demand efficiency over societal well-being. Moreover, a crucial aspect of neo-liberalism has been the attack on labor and real wages.

Another reason for the disintegration of embedded liberalism can be attributed to the demise of the political left in the core, particularly in the United States. Despite the concessions that were granted to working classes following the great depression, a Keynesian world order was still a capitalist system centered on the early stages of mass consumerism and suburbanization. The problems of social injustice and inequality in the U.S. loomed behind the high growth rates of embedded liberalism. These issues were brought to the forefront of U.S. society through the civil rights movement and reactions to the Vietnam War. The latter was seen as an imperialistic invasion on the part of the United States by many on the left (Peet 2007: 86). More importantly, a considerable number of people held the view that welfare capitalism needed to be more progressive

and move further in the direction of redistribution (Ryner 1997: 21). This led to a formidable counter-culture built around civil rights, feminism, militant unionization, environmentalism, sexual freedom, and drug policy. However, the counter-movement of the 1960s and early 1970s was only able to muster an ephemeral challenge to the status quo and other social forces on the right which sought to maintain a politically moderate and consumer oriented society.

These same social movements, which were often perceived as radical and anti-corporate, triggered a reactionary movement on the right led by the American business class that was politically and economically threatened by ideas oriented around social solidarity (Peet 2007: 87). Since the mid 1970s, U.S. corporations have spent around $900 million a year to fund ideological campaigns and decentralize organized labor (Peet 2007: 87; Harvey 2005: 44). A large proportion of this money has gone to fund powerful think tanks such as the Heritage Foundation, the Hoover Institute, the Center for the Study of American Business and the American Enterprise Institute (Blyth 2002: 156).[24] Well funded by business executives, many of these think tanks have employed their resources to spread ideas consistent with market fundamentalism, consumerism and center-right ideas. For example, in 1977, Milton Friedman's book *Free to Choose* was turned into a television program, funded by the Scaife Foundation (Blyth 2002: 156). This program was shown on both American and British public television. By the early 1980s, the threat to corporate power by social movements in the core states had been greatly undermined and the business class had firmly reconsolidated its hegemonic position in American society (Peet 2007: 87). Edsall notes that the political wing of the

[24]In 1973 the Heritage Foundation had a budget of around $1million dollars; by 1981, that figure increased to $7.1 million a year (Blyth 2002: 156).

American corporate sector was so successful in reestablishing power throughout the 1970s and early 1980s that the American business community was gaining the similar levels of influence that were witnessed during the pre-Keynesian era of the 1920s (Edsall 1984: 107).

The Chicago School and Chile

The crisis of capital accumulation, disintegration of Fordism, de-unionization and increasingly incoherence of leftist ideas has provided a space in civil society since the 1970s that has been parlayed by the capitalist class into a global hegemonic order. The reconstitution of 'common sense' since the 1970s has been implemented by the use of brute force, coupled with an ideological campaign in the realm of civil society to win over the hearts and minds of the subordinated classes. A common strategy of the neo-liberal class is to employ acts of coercion and manipulation during times in which populations are vulnerable. Although studies can be undertaken to fully grasp the ascent of neo-liberal hegemony, Chile's transformation not only exemplifies the coercive dimension of neo-liberal hegemony, but also provides a way to better understanding it as a class movement. While the ideology of neo-liberalism may have first become inundated in the U.S. and Great Britain, what occurred in Chile serves as a starting point for discerning the ideological and authoritarian expansion of neo-liberal hegemony from the elite classes of the core and into the descending classes along the periphery (Valdes 1995: 4).

As discussed before, the state-planned economy of Chile was considered to be a relative success in the post-war years. However, Valdes notes that policies of redistribution in Chile came under attack in the mid 1950s for two reasons. First, there

was a perception of a class threat against the minority of conservative parties and business elites (Valdes 1995: 103). Business elites at the time were not calling for the radical free market reforms that would later be applied, but they understood the situation as a class struggle between themselves and state forces seeking control over economic life (Valdes 1995: 104). Second, although the state-planned economy was successful to some extent, Chile was struggling with high levels of inflation by the mid-1950s. This led to serious discussions among economic elites concerning the sustainability of state planned industrial development (Valdes 1995: 105).

This resulted in an opportunity to modernize the field of economics within Chilean society (Fischer 2009: 308). The U.S. government, under the auspices of the International Cooperation Association (ICA), became directly and deliberately involved in exposing Chilean students to the most conservative economics at the time in an effort to thwart sentiments of socialism in Chile during the mid 1950s (Valdes 1995: 49). To do this, a program by the ICA was established that would pay for Chilean students to study at the University of Chicago under prominent professors such as Hayek, Friedman and Arnold Harberger (Fischer 2009: 305). By 1955, students from Santiago's Universidad Catolica de Chile were sent to Chicago courtesy of the United States government (Fischer 2009: 309). Valdes articulates that an 'ideological transfer of ideas' was fostered in Chilean society through a triage consisting of the Chicago School of Economics, the United States government (ICA) and the Universidad Catolica de Chile in Santiago (Valdes 1995: 48-50). The idea at the time was to dampen ambitions of socialism in Latin America and instill ideas geared around market fundamentalism among the educated elite.[25]

[25]Valdes goes on to say "The explicit goal was to foster pluralism in the economic theories that were taught in Chile at the time. The implicit goal was to combat what was perceived as "socialist ideology" in Chilean

The United States government continued to fund the program until 1964 and thereafter it was funded by private donors such as the Ford Foundation, Rockefeller Foundation and the Organization of American States (Fischer 2009: 310). By the 1960s, the Chicago School was also expanded to target other Latin American countries such as Argentina and Columbia. The objective was for the newly educated Latin American students to return to their home countries and facilitate the ideas associated with market autonomy. Schooled by the most prominent neo-classical economists at the time, the returning students went on to become the 'organic intellectuals' that would channel these same ideas within Chilean society (Silva 2008: 151).

Furthermore, most of the thirty Chilean students from the Universidad Catolica who received post-graduate degrees from the University of Chicago went on in Chile to become recognized industrialist, academics, and executives of financial conglomerates (Silva 2008: 148). This group of Chilean elites became known as the 'Chicago Boys.' Moreover, after returning to Chile, the Chicago Boys set out to enact an intellectual revolution at the Universidad Catolica. The economics department at the Catholic University was overhauled and soon emulated the intellectual orientation of the Chicago School. The old professors and their sympathy for import substitution and developmentalism were replaced by a coterie of enthusiastic 'Friedmanites' (Valdes 1995: 165).[26] Moreover, student enrollment in the school's economics department increased from 147 in 1957 to 289 in 1963 (Valdes 1995: 165).

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economics and to change things in such a way as to transform the country's economic administration within a decade. Therefore, right from the start, the process being discussed was a deliberate and programmed attempt to transfer ideas, an effort that was backed by a specialized Structure-Chicago University-and was based on an intermediary who had the adequate means-particularly the financial resources-to make the operation viable" (Valdes 1995: 49).

[26]By 1963, the staff at the Universidad Catolica de Chile included 13 full-time professors, 12 of which graduated from the University of Chicago (Valdes 1995: 165).

However, while the Chicago Boys were experiencing great success in spreading their ideas among academics, business and political elites, they were still being circumvented from any substantial political power (Valdes 1995: 201). Furthermore, this proved to be a crucial time for class struggle in Chile (Gill 2003: 70). This came to a head in 1970 when Salvador Allende, a socialist, was elected president. Allende's election victory was the outcome of years of careful planning by the left to build a strong coalition against the bourgeoisie (Drake and Jaksic 1995: 3). Allende's agenda was to further nationalize key industries and exert control over the economy (Fishcher 2009: 314). Against this, a cohesive movement on the right emerged composed of intellectuals, technocrats and business elites (Fisher 2009: 315). After Allende came into power, the business class funded right wing think tanks and media outlets designed to alter public opinion and incite social unrest (Fischer 2009: 316).

However, a consensus emerged within the business class that it would not be able to come into power through 'democratic' means. Instead, an understanding coalesced between the advocates of free market reforms and the military that the Allende government would soon be overthrown and the military would allow for the neo-liberal intellectuals and technocrats to implement their economic and social agenda (Silva 2008: 149). Furthermore, Chilean society in the early 1970s was also feeling the effects of a global recession. Between 1971 and 1973, the economy suffered from debt and inflation (Valdes 1995: 249). With the population vulnerable, the business class and military had an opportunity to restructure Chilean society. In 1973, a military coup led by Augusto Pinochet and backed by the CIA, U.S corporations and Henry Kissinger was successful in overthrowing the Allende government. Allende, popular among the working classes and

known for advancing democracy through peaceful means, was killed by the Pinochet army in the presidential palace (Harvey 2005: 7-8). During and after the Coup, economic technocrats and members of the military were supplied with the 'brick', an economic doctrine adhering to the market fundamentalism of the Chicago School (Silva 2008: 149).

After crushing the left with brute force, Pinochet initially chose to only make moderate economic reforms in the immediate months following the coup (Silva 2008: 151). However, by 1975, the economy was revamped by what became known as the 'shock treatment' approach (Fischer 2009: 319).[27] Milton Friedman, who became a supporter of Pinochet's 'shock treatment', met with him in 1974 and from then on corresponded several times through an exchange of letters and advised the general on how to implement components of 'free trade' (Fischer 2009: 320). Moreover, most of the key posts in the Chilean economy under Pinochet were filled by Chicago Boys. With leftist forces defeated, the Chicago Boys in collaboration with the Chicago School of economics and the military junta could now use Chile as a lab to test their theories of economic rationalism (Klein 2007: 58).

The Chicago boys in collaboration with the Chicago school used their new found freedom to implement what was referred to as "the seven modernizations" in order to neo-liberalize Chilean society and further dismantle the welfare state (Silva 2008: 153).[28] However, there was an obvious contradiction between economic liberalism and political authoritarianism that had to be rectified before the neo-liberal project could move

[27]'Pinochet thought that the economy could only be radically reformed through economic shock treatments. This was also supported by members of the Chicago School, most notably Milton Friedman. Pinochet though could not be considered a neo-liberal in an intellectual sense, but he was enamored with the ideas of market fundamentalism as a way to crush the left and consolidate his military rule.

[28]The seven modernizations included labor reform, privatization of social security, education, healthcare, opening up agriculture to foreign investment, transformation of the judiciary, and decentralization of government.

forward. This was accomplished on two grounds. First, acting as organic intellectuals, the Chicago School, led by Hayek, claimed that before Pinochet, Chile was not a democratic society (Silva 2008: 155). Moreover, Friedman and Hayek also argued that political liberty could not be achieved first without economic liberty. Therefore, political authoritarianism was a legitimated precondition for economic reform (Silva 2008: 156). Silva attributes the second reason to the introduction of mass consumerism into Chilean society. The implementation of mass consumerism promoted individualism, economic rationalism and the depoliticization of the population (Silva 2008: 159-69). Furthermore, while the case of Chile may be unique, it marked a new era that would later entail the political-economic transition of other Latin American countries toward neo-liberalism in the 1980s and 1990s.

Reaganism

In the developed North, Hayek won the Nobel Prize for economics in 1974 and Friedman took the same award in1976. Friedman became President of the American Economics Association in 1977 and by that time had become the best known critic of welfare capitalism (Ashford 1993: 19). Moreover, the Volker shock of 1979 marked a turn in the New Deal policy of the U.S. from obtaining full employment to a commitment to fighting inflation (Blyth 2002: 171). One of the themes espoused by economist, think tanks and forces on the right in the 1970s was that the government should be fully committed to fighting inflation. Whereas the 1950s and 1960s embraced unionization, wage increases and social expenditures, these were now being articulated as the reasons for inflation, a word that increasingly took on a negative connotation in political discourse (Blyth 2002: 147).

The mid 1970s onward was a transition period between the disintegrating structure of Keynesianism and the ascent of neo-liberalism. While the right had already built a successful campaign against the welfare state, the business class needed additional political power to further implement its agenda. The election of Ronald Reagan represented the consolidation of neo-liberal hegemony through state power (Harvey 2005: 51; Peet 2007: 6).[29] Not only did Reaganism play a significant role in replacing Keynesianism with supply-side macroeconomics and a reduction in social spending, but his political regime also marked a new perspective of common sense in world order (Ashford 1993: 43). The conservative turn in American politics meant that the business class now possessed immense power to mobilize the ideas that were first constructed in 1947 at the Mount Pelerin Society by economists such as Friedman and Hayek.

Reagan set out quickly to reverse the policies that had been constructed since the New Deal. During the 1980 presidential campaign, Reagan's team created six task forces intended to formulate economic reforms that would replace the interventionist state with free market ideas (Hodgson 1996: 212). Many of the task force members included powerful intellectuals who were 'organic' to the newly established hegemonic position of neo-liberalism. Some of the people on the list included Alan Greenspan, George Shultz, and Milton Friedman (Hodgson 1996: 212). Reagan himself regularly carried a copy of Friedman's *Capitalism and Freedom* on the campaign trail (Klein 2007: 34). Shortly after coming into office, the policies that were formulated by the task forces were presented in

[29] While the Reagan revolution in the United States was certainly instrumental in the consolidation of neo-liberalism, the political rise of Margaret Thatcher during the late 1970s and throughout the 1980s in Great Britain was also a key factor in the consolidation of neo-liberal hegemony. Similar to 'Reaganism', 'Thatcherism' was centered on the same of fundamental ideas of dismantling the welfare state, diminishing the power of unionization and espousing the virtues of individualism and self sufficiency. Like Reagan, all of her policies were geared to cut social spending and redistribute wealth to the upper class (Harvey 2005: 57-62).

a document published by the White House entitled: *America's New Beginning: A Program for Economic Recovery.* Blyth refers to this document as depicting the ideology and ambitions of the 'Reagan Revolution' (Blyth 2002: 172). The main objectives for the administration were to drastically cut federal spending, restructure the tax system, deregulate finance, and reduce inflation with a stable money supply (Blyth 2002: 173).

In 1981, the Economic Recovery Act was passed which included substantial tax breaks for the wealthiest Americans (Blyth 2002: 175). The tax rate for corporate income was decreased from 33.1 percent to 15.8 percent (Edsall 1984: 226). The corporate tax breaks initiated under the act would end up costing the American state roughly $500 billion over a ten year period (Blyth 2002: 177). Reagan's presidency also greatly expedited the ongoing tax revolt that has occurred since the late 1970s by the American upper class. In 1980, the highest income earners in the United States were taxed at a rate of around 70 percent. When Reagan left office in 1988, the tax rate for the richest Americans was just under 30 percent (Dumenil and Levy 2004b: 113). The Reagan revolution sparked a trend in the United States and in many other parts of the world of the gross inequality of income distribution between the upper classes and everyone else. For example, the salary for the highest ranking CEOs in 1970 was 50 times that of the average wage-earner in the United States. In 1988, the disparity increased to around 400 times and by the year 2000, the top CEOs in America made somewhere between 2,000 to 3,000 times the salary of an average wage-earner (Dumenil and Levy 2004b: 117).

Moreover, massive tax cuts under Reagan resulted in huge government deficits, which in turn justified the need to drastically cut social spending. The drive to cut social spending and reduce taxes on the rich is an important feature of neo-liberalism. The

discourse of neo-liberalism has been incredibly successful in instilling the idea that government deficits should not be attributed to drastic tax cuts for the rich, but instead the blame is often placed on social spending for the poor and working classes. In other words, a significant difference between the discourse of embedded liberalism and neo-liberalism is that the working poor and the social programs they often rely on have become the enemy of the middle and upper classes, while the enormous tax cuts that the upper classes have received in recent years are usually ignored and insulated from critique. Between 1981 and 1985, Reagan cut $140 billion dollars in spending. A significant portion of the cuts were for programs geared toward the poor such as food stamps and medical aid. In the 1982 State of Union Address, Reagan vowed to rollback much of the social policies of the New Deal and Great Society, deeming them to be wasteful (Blyth 2002: 179). The reshuffling of the tax code and eradication of social programs by the Reagan administration signaled a significant victory for the business class and the further dismantling of the welfare state. It also meant that capitalism as a neo-liberal class movement was taking shape in the core of global society. Moreover, the tax revolt was only part of the process under Reaganism to consolidate neo-liberalism in the United States. Harvey explains that the Reagan revolution produced policies that always gave business the advantage whether it was concerning industry, the environment, welfare, healthcare or the relationship between the consumer and seller (Harvey 2005: 52).

The Reagan administration was also instrumental in the further erosion of labor's bargaining power that had already begun to become unraveled during the previous decade. After coming into office, Reagan quickly shut down the Air Traffic Controllers

Union to make it clear that his administration intended to put an end to the class compromise that was constructed between labor and business in the 1950s and 1960s. All of the 11,400 striking members of the union were fired (Harvey 2005: 52) Even before Reagan came into office, most U.S. economists had become neo-liberal descendents of Friedman and Hayek and a conventional wisdom prevailed that labor was voluntary (Blyth 2002: 181). This further augmented the changing perception that the role of government was not to ensure full employment, but to fight inflation, regardless of the social cost or unemployment figures.

Moreover, because of the breakdown of Fordism in the 1970s, many unionized plants had already begun to close down in the industrialized parts of America, sending many jobs overseas where they could be preformed for fraction of the cost. Furthermore, cuts in social spending and interest rate increases led to relatively high levels of unemployment. When unionization was strong during the 1960s, U.S. unemployment rates remained steady at about 3 or 4 percent. During Reagan's administration, unemployment peaked at around 9 or 10 percent between the years of 1984 and 1985 (Dumenil and Levy 2004a: 54). This contributed to the continued attack on labor as high unemployment rates usually decrease wages and make it easier to open up more flexible labor markets. Furthermore, whereas productivity and an increase in real wages grew together in the boom years of the 1950s and 1960s, real wages in U.S. have steadily decreased while productivity has increased since the early 1980s (Dumenil and Levy 2004a: 34-5).

It could also be argued that the governance of Reaganism marked the consolidation of financial capitalism (Peet 2007: 38). Whereas key government economic post under Keynesianism sought some level of regulation of the banks, since the Reagan

administration, government positions concerning the economy are almost always held by those connected to Wall Street. This trend has continued in all administrations since then (Peet 2007: 38). The majority, if not all of people holding such government positions subscribe to free market policies and fiscal discipline. James Baker, who served as U.S Secretary of the Treasury between 1985 and 1988 had previously been a senior counselor to the global investment giant, the Carlyle Group (Peet 2007: 39). He would later go on to initiate the Baker Plan, a structural adjustment plan for certain Latin American countries following the debt crisis of early 1980s. Furthermore, Dumenil and Levy note that although the financialization of capital began in moderate doses from the 1950s it was substantially increased during the early 1980s (Dumenil and Levy 2004a: 112). Financial corporations in comparison to non-financial corporations, grew in net worth by 12 percent in 1982, nearly 20 percent in 1990 and by 23 percent in 1999 (Dumenil and Levy 2004a: 111).

It was also during this time that developing countries were being redirected away from strategies of import substitution industrialization. It is not surprising that Reagan and his team of neo-liberal technocrats held a level of disdain for the developmental projects of the third world (Bello 1999: 20). This view of the developing world from the Reagan administration stemmed from a conservative view that began in the 1960s and 1970s which was eager to dismantle the economies of countries that had taken the route of state planning redistribution. Building on the circulation of ideas through powerful think tanks such as the Heritage Foundation in the early 1970s, the Reagan administration adhered to the perspective that the third world was systematically trying to undermine the liberal world view of the developed north. Working directly with the Heritage

Foundation, the Reagan administration subscribed to the same view that every country in the developing world, with the exception of Hong Kong and Chile, were economic failures and a threat to democracy (Bello 1999: 19).

A consensus emerged between the Reaganites, powerful conservative think tanks and economists that the developing world would have to be transformed to stabilize the global system under an American-centric liberal world order (Bello 1999: 23-4). Reagan's team rejected the previously held consensus of liberal containment, in which the primary objective was to thwart the influence of the Soviet Union away from the third world. Instead, the Reagan administration took the view that foreign aid should only be distributed as a method for enhancing U.S. military and economic interests (Bello 1999: 25). This would eventually lead to the reorientation of the IMF and World Bank that were used in conjunction throughout the 1980s and 1990s to impose free market reforms on developing countries. This will be further discussed in chapters five and six.

Conclusion

Central to the role of the structural transformation from Keynesianism to Neo-liberalism was the role of intellectuals, policy leaders and business elites who came to embrace ideas centered on free markets when embedded liberalism was still the prevailing order. Moreover, it is important to note that the class compromise that was established under Keynesianism was short-lived and soon become antagonistic. The upper classes were being forced to redistribute are larger share of their incomes. Furthermore, when the mixed economy began to breakdown in the late 1960s to early 1970s, powerful circles of political elites, intellectuals and business conservatives were able to take advantage of the situation and brand a new perception of common sense

based on free market principles that eventually became hegemonic in the developed world after Reagan came into office. Moreover, this chapter has provided a broad overview of the recent historical changes that have taken place in global society. Chapter five will seek to narrow the discussion and focus on how neo-liberalism has been exported to developing countries, particularly in Latin America.

CHAPTER 5

MOVING TOWARD THE WASHINTON CONSENSUS

While chapter four provided a broad summation of the post-war transition from the hegemonic policy regime of Keynesianism to neo-liberalism, the purpose of this chapter is to provide a historical account of how neo-liberalism has been able to make hegemonic inroads in Latin America and the rest of the developing world. Whereas the shift to neo-liberalism in the developed north marked a moderate departure from post-war Keynesianism, the neo-liberal hegemonic ideas that have often been imposed on developing countries represent a sharp break from the state-planned and socialist leaning policies of the post-war years. Pertinent to the spread of market-oriented economic policy in Latin America and the rest of the third world has been the role of institutions such as the International Monetary Fund (IMF) and the World Bank. Changes in the international financial system since the early to mid 1970s have also coalesced with the increasing power of development banks, the technocrats who control them, political elites and multinational corporations that collectively govern over the fate of millions of people in the developing world.

Since the early 1980s, Latin American countries and the rest of the third world have been engulfed in a perpetual debt trap to the financial institutions of the north and the shareholders who control them. There is a growing body of evidence and literature to suggest that institutions such as the IMF and World Bank have come to represent the interests of transnational capitalism rather than the general public. While the IMF, World Bank and regional development banks have provided the third world with billions of

dollars in loans for decades, developing countries can only receive these loans if they make stringent free market reforms to their economies. Since the early 1980s, the IMF and World Bank have played a leading role in distributing loans and ensuring that developing countries meet conditions of economic reform. These structural adjustment policies have been centered on fundamental neo-liberal hegemonic policies such as privatization, trade liberalism, devaluing currencies, opening up to foreign direct investment, decreased government spending, and other market oriented reforms. More often than not, first world technocrats under the influence of Washington and financial institutions have pushed relentlessly to impose a one-size fits all conception of neo-liberal capitalism on the Third World.

Moreover, the neo-liberal driven ideology that has been the driving force behind international financial institutions was captured in the late 1980s and early 1990s under the highly publicized 'Washington Consensus'. This consists of a list of policy prescriptions deriving from Washington elites that was presented in the aftermath of the Cold War as being a road map for development in Latin America and the rest of the third world. Panizza notes the Washington Consensus became a ‘Decalogue’ for economic development in Latin America during the 1990s (Panizza 2009: 11). While chapter four included a discussion of structural adjustment in Chile, this chapter will provide an overview of the development of neo-liberal policy in the third world, particularly Latin America, which culminated into the Washington Consensus by the early 1990s.

From ISI to Debt Crisis

As briefly discussed in chapter four, many governments in Latin America followed the model of import substitution industrialization (ISI) in the post-war years. Robinson

refers to ISI in Latin America as a policy regime centered on a "regional-specific variant of Fordist-Keynesian national capitalism which focused on nationally oriented accumulation" (Robinson 2008: 51). Central to the system of import substitution industrialization were policies geared toward accumulation and growth combined with regulations and wealth redistributions. Robinson notes the economic growth policies of Latin American countries were made possible by being tied to the 'golden age' of capitalism in the north during the 1950s and 1960s (Robinson 2008: 52). The historically high growth rates of the OECD countries and the expansion of the global economy provided a healthy market for Latin American exports. At the same time, many Latin American countries erected import tariffs, subsidized key industries and had unions that helped foster elements of worker solidarity and nationalism (Robinson 2008: 52).

Thus, many Latin American countries were able to grow while nurturing state-regulated economies and adopting some of the policies of Keynesianism such as monetary measures and incentives that allowed for moderate international investment. While contemporary economists often tag policies of protectionism and state planning with a negative connotation, the results from the post-war period reveal that overall growth in Latin America was relatively successful. The aggregate rate of industrial growth in Latin American between 1950 to the mid-1970s was 6.9 percent. Overall, manufacturing as a percentage to gross domestic product (GDP) grew from 19 percent to 24 percent (Weaver 2000: 129). The largest country in the region, Brazil, grew during this period at an average of 7.4 percent (Malan and Bonelli 1992: 55). Under strict state regulations that incorporated basic elements of import substitution industrialization, GDP growth in Mexico averaged 7 percent and real wages grew steadily between 1960 and

1970 (Enriquez 1988: 24). Moreover, ISI strategies and the ability to grow their economies provided many countries with some level of national autonomy in the pre-globalization age. Moreover, many of the countries' economies during this time were managed by a growing middle class of educated elites who formed multiclass alliances through an appeal to populism. State planned capitalism existed in a regulated form which incorporated projects of redistribution and an increase in real wages (Robinson 2008: 52-3).

However, Robinson points out that the multiclass compromises that emerged during this time were often predicated on authoritarian arrangements between elites and the working classes (Robinson 2008: 53). While ISI was successful at delivering growth and making relative gains in equality, this also brewed an antagonistic relationship between the technocrats, who increasingly sided with military interests and the descending classes of society (Panizza 2009: 14). The technocrats and military elites of many Latin American countries viewed the social policies attached to ISI such as strong unionization as breeding grounds for sentiments of further property redistribution and social solidarity that threatened the interests of the ruling class (Panizza 2009: 15). As was discussed in the case of Chile under Pinochet, the free market ideas of neo-liberalism appealed to the technocrats and military elites of many Latin American countries as political tools to maintain class inequality. Between the mid 1960s and mid 1970s, Peru, Brazil, Argentina, Chile and Uruguay all experienced military coups. Most of the other countries in the region that were not controlled directly by the military were governed by authoritarian regimes (Robinson 2008: 54).

Although the import substitution industrialization strategy implemented in most Latin American countries provided some level of autonomy, the region as a whole was still reliant on international markets. Thus, the internal political problems along with the breakdown of Keynesian growth models in the OECD (discussed in chapter four) made Latin America a vulnerable region in the 1970s and ripe for drastic political and economic change. The changes that would sweep the region and culminate in the 'lost decade' of the 1980s can be attributed to both internal and external global forces. First, the effort to maintain high levels of growth in many Latin American countries created a precarious reliance on imported technology, energy, equipment and raw materials. At the same time, accumulation under ISI was being hampered by the saturation of manufactured and agricultural products in international markets. In order to sustain growth and maintain social policies under ISI, many Latin American countries began taking private loans from banks of the OECD countries, which began the process of debt accumulation in the region (Robinson 2008: 53).

The policy of borrowing and incurring debt in the mid to late 1970s was to a large extent the result of drastic changes in the international monetary system, particularly the demise of the Bretton Woods fixed exchange rate system. Negotiated in 1944, the Bretton Woods system, which included the creation of the International Monetary Fund and World Bank, was designed to regulate international financial capital. The most important goal was a stable system of fixed exchange rates among countries conducive with the nationally oriented growth models of Keynesianism. Under the Bretton Woods regime, the U.S. dollar, backed by gold, served as the main currency and was pumped into international markets in the immediate post-war years in order to promote stability and

growth (Wachtel 1990: 50-51). However, by the late 1960s, dollars were flooding out of the U.S. rapidly and foreign investors, mostly European, began to suspect that the U.S. no longer possessed an adequate gold supply to back up every dollar (Wachtel 1990: 80). The lack of gold supplies in the U.S. coalesced with the economic downturn that emerged in the late 1960s and early 1970s. The rebuilding of Europe and Japan and the saturation of exports on the global market by newly developed economies meant that the U.S. no longer had the economic might to anchor the international financial system and serve as the central lender for the developing world.

Posed with the possibility that European investors might attempt to cash in their gold-backed dollars, Nixon de-pegged the dollar from gold in 1971. Consequently, $3.7 billion dollars were converted into European currencies (Wachtel 1990: 81). More significantly, the demise of Bretton Woods meant that the U.S. no longer maintained tight controls over international currency exchanges and investments. The fixed exchange rates under Bretton Woods were replaced by floating exchange rates in which the dollar still remained the main currency, but fluctuated according to global supply and demand of other currencies. Moreover, the dollars converted into European currencies or 'Eurodollars' along with other newly unregulated and state-less currencies, fostered a vast supply of money into the global economy that could be used for speculative investing (Rupert and Solomon 2005: 46).

The sudden de-regulation of financial capital in the early 1970s occurred just before the 1973 OPEC oil shock. Substantial increases in world oil supplies following the initial shock of 1973 generated windfall profits for the Organization of Petroleum Exporting Countries (OPEC). After a fourfold increase in oil prices in 1974, OPEC states had a

surplus of $68 billion, ten times larger than the previous year. Surplus increases for OPEC countries totaled $173 billion by 1977 (Wachtel 1990: 105). After the second OPEC oil shock of 1979 following the political turmoil in Iran, surplus totals from 1973 until the end of the decade reached $357 billion (Wachtel 1990: 108). The surpluses accumulated by the larger members of OPEC such as Saudi Arabia, Kuwait and the United Arab Emirates meant they possessed vast amounts of dollars that could be re-invested into the global economy. The Bretton Woods monetary system from 1944 to 1971 that regulated exchange rates and influenced the international money supply was being replaced in the early to mid 1970s by a de-regulated financial system awash in unprecedented sums of capital.

Most of the surpluses accumulated by OPEC members during this time were re-invested into the newly deregulated Eurodollars. Vast amounts of Eurodollars were deposited in offshore accounts of American banks that were insulated from regulation and taxes (Wachtel 1990: 105-6). Wachtel notes that while many of the deregulated transnational banks were delighted to receive these deposits, most of them were also overwhelmed by a sudden and massive supply of money.[30] The economic downturn in the 1970s stifled investment in the developing countries which meant that most of the available Eurodollars could not be absorbed only by transnational corporations and therefore a new outlet for investment was needed. In an effort to sustain their struggling economies and maintain political power, government leaders from Latin America and the

[30]Wachtel summarizes this situation: "They were paying interest on the large certificates of deposit to their OPEC customers, and the problem was to find lending outlets that could earn higher rate of interest than the one paid on the petrodollars. The traditional loan recipients of Eurodollars, multinational corporations, could not absorb the tens of billions the banks needed to unload for two reasons. First, the worldwide recession soured prospects for new investments on the scale required. Second, even in the best of times, the multinationals could not profitably absorb that much money. Never in the history of the world has there been such a massive movement of wealth among countries in such a short period of time" (Wachtel 1990: 106).

rest of the developing world were more than willing to absorb the vast amounts of what by then had become known as ‘petrodollars’ (Wachtel 1990: 106-7). Wachtel identifies two factors which contributed to the massive amount of debt that many developing countries would be faced with by the end the 1970s. First, newly deregulated, multinational banks pursued aggressive lending strategies to push money into the struggling economies of the developing world. Second, imprudent political leaders throughout the Third World were eager to take the money to maintain their own personal ambitions despite the future consequences of long-term debt (Wachtel 1990: 107).

Ironically, a substantial proportion of the recycled petrodollars that developing countries began borrowing in the 1970s were used to cover the sharp increase in oil prices. The policies of ISI in Latin America required substantial amounts of resources, including imported oil. Petroleum based products were crucial in industrialization projects including petroleum based fertilizers needed to sustain agricultural production. Bello points out that the control of much of the world’s oil supply during the 1970s by OPEC also depicted the shallowness behind the rhetoric of third world solidarity (Bello 1999: 24). Amidst the drastic rise in oil prices, third world leaders attended the Conference on International Economic Cooperation (CIEC) hoping that OPEC countries would cooperate over the price of petroleum based commodities. However, the influential members of OPEC such as Saudi Arabia were more inclined to side with the interests of the Northern banks (Bello 1999: 24).

The correlation between the OPEC oil shocks combined with the drastic changes in international financial capitalism and the detrimental effects they had on the developing world during the mid to late 1970s is indisputable. In just seven years, the nearly $350

billion in surpluses accumulated by OPEC was matched by $400 billion in Third World debt (Wachtel 1990: 108). For almost every petrodollar of surplus that was pumped back into the global economy, a dollar of debt was incurred by a developing country. More importantly, the demise of Bretton Woods and the deregulation of global capitalism demonstrated the unprecedented power that capitalism had already obtained by the end of the decade. Moreover, the augmentation of this neo-liberal form of capitalism was greatly enhanced by advancements in communication technologies. New breakthroughs in technology allowed for deregulated banks from OECD countries to open offshore branches and make quick and efficient transactions from anywhere in the world. Wachtel points out that between 1978 and 1979, 803 branches of European and British banks were located in offshore centers compared to the 875 branches that operated within Europe and Britain (Wachtel 1990: 111). During this time of hegemonic transition, U.S., European and Japanese banks competed fiercely with each other to distribute recycled petrodollars throughout the developing world and further link the Third World to the whims of a global market controlled by small financial and political elite of the developed North (Bello 1999: 25).

The precariousness of mounting third world debt and the hegemonic ascent of financial capitalism was consolidated when in 1979 the head of the U.S. Federal Reserve, Paul Volcker, signaled a sharp turn toward neo-liberal monetary policy in the north by drastically increasing U.S interest rates. The political reasons for doing so derived from concerns over the declining value of the dollar against surging European currencies and the Japanese Yen. This later became known as the Volcker Shock and is what Dumenil

and Levy (2004a) refer to as a financial coup.[31] The effects on Latin America and the rest of the developing world were devastating. As discussed in chapter four, the global economy during the mid to late 1970s was characterized by high inflation. The economic rationalization behind the 1979 interest rate shock was that it would decrease borrowing, encourage savings and bring down the rate of inflation. However, neo-liberal driven policy is often myopic and ethno-centric by nature. Saving was not a viable option for a substantial portion of the population in the developing world which was living in abject poverty.

Since all of the capital lent to Latin America was from U.S banks or tied to the dollar, borrowing and servicing existing debt for countries in the region became more expensive. Already struggling to keep their state-planned economies afloat and dealing with political corruption, most Latin American countries descended into an endless trap of trying to pay off seemingly insurmountable debts. Every percentage point of interest rates raised by OECD banks added millions, if not billions of dollars to the existing private bank loans that were written with variable interest rates. Following the Volcker Shock, the aggregate total of third world debt by 1980 was $700 billion (Bello 1999: 25). More significantly, by 1980 the ISI policies of Latin American governments became effectively unsustainable and inept. Latin America was thrust into a state of crisis and prone for transition. What began with the dismantling of the state in Chile in 1973 could now be expanded across the entire region of Latin America and the rest of the developing world.

[31] In Dumenil and Levy's words: "From a financial point of view, the most spectacular element in the restoration of the hegemony of finance was the change in monetary policies at the end of 1979; the 1979 coup. One should not see here the hand of the mysterious market, but, in fact, a centralized decision, a deliberate policy. At the time when inflation was taking off, priority was given to its eradication, whatever the price for some and after having taken into account the advantage for others" (Dumenil and Levy 2004a: 69).

Changing Nature of the IMF and World Bank

By the early 1980s private lending to Latin America and developing countries began to dry up as it became clear that the rate of GDP growth for many countries could not keep up with loan repayments. Desperate to contain social unrest and keep their sluggish economies from completely collapsing, many Latin American leaders had little choice but to turn to the international financial institutions for help. Moreover, the debt crisis in the Third World and the demise of the Bretton Woods monetary system culminated in the restructuring of the International Monetary Fund. The IMF and World Bank were both created under the auspices of the Bretton Woods agreement in 1944. The original intention for creating the World Bank and IMF was not to enhance the interests of global capitalism or directly restructure the economies of developing countries. In the Keynesian, post-war years, the IMF and World bank were used in conjunction with each other (Babb 2009: 27). Vreeland notes that one of the original intentions of the IMF was to monitor exchange rates between industrialized states, primarily between war-torn Europe and the United States (Vreeland 2007: 5). In the 1960s and 1970s, the Fund began to get involved in the developing world. This usually entailed assisting developing countries with managing their exchange rates and providing short-term funding to make up for balance of payment problems (Panizza 2009: 31).

However, Peet explains that by the 1970s, the IMF had already been working under the radar to encourage new third world members to implement ‘stabilization programs’ that resonated with free market ideas (Peet 2003: 73). In one of the first critiques of the Fund, Payer sketched an outline of the early neo-liberal policies the IMF was adopting by the mid 1970s. These included; 1) liberalization of foreign exchange; 2) devaluation of

the exchange rate; 3) domestic anti-inflationary programs; including decreasing government spending; cutting wages; increasing interest rates; dismantling price controls; 4) making domestic markets more accessible for foreign investment (Payer 1975: 33). Not surprisingly, Payer concluded that the demise of Bretton Woods and the early transformation of the IMF characterized a global economy increasingly more inclined to give priority to extracting profits over the well being of the people (Payer 1975: 207-8). Her only suggestion at the time was to do away with the Fund.[32] The World Bank in the post-war years for the most part dealt with lending funds to developing countries in order to build infrastructure such as roads and agricultural projects. In the 1970s, the Bank was largely concerned with the alleviation of poverty (Panizza 2009: 31).

Whereas the IMF and World Bank in the immediate post-war years played a lesser role in international affairs, the transformation toward a neo-liberal orientation meant that both institutions were retooled to play a direct role in administering structural adjustment policies in third world countries that entailed the implementation of free market oriented policies by the early 1980s (Peet 2009: 106, Rupert and Solomon 2005: 47). However, Panizza explains that although the IMF and World Bank made a substantial turn toward neo-liberalism by the early 1980s, the full shift developed throughout the 1980s and was not consolidated until the emergence of the Washington Consensus in the late 1980s and early 1990s (Panizza 2009: 36). Furthermore, the reasons attributed to the changing nature of the IMF and World Bank seems to be based on a loose consensus among scholars that may be attached to an ideological perspective. However, considering the

[32]Payer asserts that "Since the international monetary system is controlled by rich nations, it is Utopian to expect the guardian of the system to be the champion of the have-nots as well. For all these reasons I have offered no suggestions for changes in the operations of the Fund itself, for it would have to tear up its constitution and become a different animal altogether before it could conceivably play a positive role in the development of the third world" (Payer 1975: Appendix III).

drastic political, economic and ideological changes taking place during the 1970s and 1980s, it seems inconceivable that the changing nature of the IMF and World Bank resulted from some accident. Instead, the influence the IMF and World Bank have over the economic policies of developing countries has to be understood as coinciding with the expansion of global capitalism.

Structural Adjustment Before the Washington Consensus

By the early 1980s, the debt ridden and seemingly unsustainable economies of the developing world emboldened the neo-classical liberal argument deriving from the Chicago School that the policies of state-planning and ISI were not viable options for development in the third world. Thus, Sheahan argues that the U.S, along with the IMF and World Bank took advantage of the political and economic turmoil in Latin America during this time to implement the conservative views that that had been brewing in powerful circles since the 1950s (Sheahan 1992: 33). The first drastic and symbolic step toward restructuring the IMF and World Bank began with the 1982 Mexican debt crisis, which was part of a larger regional crisis that plagued much of Latin America during the 1980s. The Mexican debt crisis was also significant because it represented the first real threat to the interests of the newly de-regulated international banks that had billions of dollars invested in the Third World (Panizza 2009: 34).

Mexico's foreign debt increased from $6.8 billion in 1972 to $58 billion by 1982 (Harvey 2005: 99). Following surging oil prices, recession and high interest rates after the 1979 Volcker shock, Mexico effectively filed for bankruptcy on its loan to New York City investment banks. Instead of letting Mexico default on its debt, U.S. Secretary of Treasury James Baker along with the newly reoriented World Bank and IMF stepped in to

bail out Mexico under strict conditions that it adopted free market reforms. The fear of growing social unrest gave the Mexican government little choice but to take the deal and liberalize the economy. In 1984, Mexico became the first country in history to receive a loan from the World Bank under the conditions of structural adjustment. These conditionalities included budget austerity, privatization, lowering tariffs, liberalization of investment and the creation of flexible labor markets (Harvey 2005: 99). To pay down its massive debt, much of the restructuring that Mexico underwent entailed selling off state-run enterprises and cutting social programs (Harvey 2005: 99).

The outcome of the Mexican debt crisis was significant for two reasons. First, the policy reforms that Mexico was forced to undergo meant that the IMF and World Bank had been so radically restructured that they were now in the business of giving priority to the interests of commercial banks over the social needs of the general population. The consequences of cutting public services in metropolitan areas such as Mexico City for the sake of paying down debts to de-regulated, international banks were dramatic. Harvey notes that the "crime wave that followed turned Mexico City from one of the most tranquil into one of the most dangerous of all Latin American cities within a decade" (Harvey 2005: 100). Second, the demonstration of power the World Bank and IMF now had to restructure the economies of entire countries marked the beginnings of a major paradigm shift in Latin America and the developing world that centered on free market hegemonic ideas (Panizza 2009:17).

By the mid 1980s, two-thirds of African countries and three-fourths of Latin American countries were subjected to some form of IMF or World Bank supervision (Peet 2003: 75). However, it was also becoming apparent to Washington and transnational capital

interests that the initial structural adjustment loans of the early 1980s such as the one used for Mexico, were not effective in restarting growth or reducing debt (Panizza 2009: 35). In the first few years in office, Reagan had employed a strategy of disciplining the IMF and World Bank. This included the administration's decision in conjunction with other OECD countries to cut nearly $1 billion of the Bank's soft-loan window, the International Development Association (IDA), which normally went to functions such as building infrastructure (Bello 1999: 28). Moreover, the initial structural adjustment loans set up by the IMF and World Bank were given out as fast disbursing short term loans. Although the extent and amount of conditions varied from loan to loan, they usually centered on reducing wages of state employees, cutting social services, liberalizing trade, privatizing state enterprises, and devaluing currencies to decrease the price of exports (Bello 1999: 27).

These early attempts at structural adjustment geared toward debt reduction were unsuccessful. Most developing countries were not able to reduce their debts mainly because loan repayments often only covered the high interests on the loan's principle, adding millions of dollars to existing debt (Babb 2009: 132). By 1985, two-thirds of low and middle income third world countries had increased their debt totals by a third of the 1982 level (Babb 2009: 132). Moreover, although many Latin American countries had implemented neo-liberal reforms, government leaders were frustrated that private lending by banks had virtually stopped (Cline 1994: 118). Thus, a concern began to arise in Washington and among executives of international banks that other Latin American countries might follow the same path as Mexico and attempt to default on their loans (Cline 1994: 118). In response to this a commission was set up composed of twenty-six

multinational banks, including Bank of America and Goldman Sachs. The banks argued that their financial assets were at risk of default and they would need the help of government intervention to ensure that private lending in the third world continued (Babb 2009: 132).

Thus, what emerged was a consensus in Washington that the IMF in conjunction with other financial institutions would have to play a more aggressive and central role in overseeing structural adjustment programs aimed at reducing debt. This entailed scrapping the original short-term loans of the earlier programs for long-term loans combined with more stringent adjustment policies (Cline 1994: 118). Moreover, the interests of the international banks to empower the IMF and World Bank in overseeing structural adjustment programs also correlated with a change in policy of the second Reagan administration. Babb notes that although the first Reagan administration was interested in dismantling the state-planned economies of the third world in order to contain communist sentiments, the Reaganites were skeptical that the development banks could function unilaterally (Babb 2009: 133). However, after four years of disciplining the third world and making inroads in the policy direction of the development banks, it became clear to the administration that the World Bank and IMF were now on the right path and could implement policies consistent with Washington (Babb 2009: 133).

The failure of early structural adjustment programs, threat of default by Latin American countries and willingness to further augment the governing powers of the IMF and World Bank culminated in the 1985 Baker Plan. U.S. Secretary of State James Baker along with U.S. Federal Reserve Chairman Paul Volcker and chief executives from Chase Manhattan, Citibank and Bank of America formulated a plan that increased the amount of

loans available from both the IMF and World Bank and private commercial banks (Peet 2003: 77). The Baker Plan increased the funding of the IMF and World Bank to $27 billion over three years (Woods 2006: 50) This also included an additional $20 billion in loans coming from private banks (Woods 2006: 50). To persuade private banks to give out the loans, developing countries were required to further undertake strict conditionalities before receiving them (Woods 2006: 50).

These included privatization of state-owned enterprises, reduction of tariffs, opening up to foreign investments and cutting taxes (Peet 2003: 73). Overall, the adjustment policies of the Baker Plan did not deviate much from the early structural adjustment agenda. The main difference was that the IMF along with the World Bank was to take a more central role in the lending process. This also meant that the IMF and World Bank were being deployed on the third world to ensure that developing countries were implementing free market reforms on a macro level and making their debt repayments on time. In further institutionalizing the governing role of the development banks, the Baker Plan also departed from the earlier plans by taking a long term approach to debt reduction as opposed to the original short-term loans (Babb 2009: 129). The plan also further empowered the World Bank and put it on equal footing with the IMF. Whereas the IMF had previously distributed most of the structural adjustment loans, the World Bank also took on the same responsibility of disbursing loans and helping developing countries to 'modernize' their economies (Woods 2006: 50-51).

The Baker Plan proved to be a failure at reducing overall debt in Latin America. Even with the downsizing of government programs and liberalization of markets, Latin American countries continued to be plagued by low growth and perpetual debt. The IMF

and World Bank came under international scrutiny in the late 1980s as social unrest broke out in developing countries such as the 1989 riots in Venezuela (Woods 2006: 51). Moreover, liberal democracy, which in theory places an emphasis on human rights and individual liberties, had taken a global hierarchical position by this time. Thus, marginalized populations of Latin America and the developing world were caught up in a grim contradiction of life since their governments had to give priority to servicing unsustainable debts and conforming to market oriented ideas over the well being of the general public.

The Baker Plan was succeeded by the Brady Plan. Then U.S. Secretary of the Treasury Nicholas Brady came up with a plan that would allow for some measure of debt forgiveness to Latin American countries (Woods 2006: 52). This occurred by allowing for debt buy backs and substituting existing loans with bond swaps in the hopes that this would reduce a country's overall debt (Panizza 2009: 35). However, the Brady Plan still maintained the strict structural adjustment policies of the Baker Plan (Woods 2006: 52). Similar to the Baker Plan, it also failed to decrease the overall debt of developing countries or to restart growth. Out of this grew a new consensus that a different policy formation needed to be enacted in order to send the third world on the path to economic recovery (Woods 2006: 53). This resulted in the Washington Consensus.

The Washington Consensus

Much has been written about the Washington Consensus in recent years. The literature on the subject usually drifts toward two questions: what was the Washington Consensus and who did it benefit? When the Washington Consensus came together in the late 1980s and early 1990s the Soviet Union had collapsed and liberal democracy with an

American flavor had triumphed throughout much of the world. Despite the growing concerns about the role of the IMF and World Bank in the third world, state planned economies with policies centered on redistribution were already highly discredited. Thus, the early evidence that the structural adjustment policies imposed on debt ridden third world countries were causing more harm than good was not enough to offset the hegemonic position of neo-liberal capitalism. Moreover, the debt reduction plans of the 1980s may have been considered a failure, but the market-friendly macroeconomic ideology which had driven them had not fallen out of favor. Furthermore, while the Washington Consensus may have been presented as an alternative to the previous structural adjustment programs, it should be understood as the culmination of policies applied to the third world that have been discussed thus far in this chapter. Whereas the onset of Reaganism may have marked the consolidation of neo-liberal hegemony in the OECD north, the policy formation and ideological discourse of the Washington Consensus came to epitomize the consolidation of neo-liberalism on a global scale.[33]

The 'Washington Consensus' has become a popularized term that was coined by John Williamson in 1989 to convey a list of economic policy reforms that Latin American countries should adopt to restart growth and reduce debt. Williamson has worked for both the IMF and World Bank. Moreover, his publications provide a concise summation of the macroeconomic neo-liberal policies that have been at the core of third world development before and after the term 'Washington Consensus' was first used. Under Gramsci's

[33]The policies deriving from the Washington Consensus should be seen as the consolidation of neo-liberal hegemony on a global scale rather than just in the third world. The policies of trade liberalization, foreign direct investment and so on affect vulnerable segments of populations in the developed north as well. Structural adjustment policies in the third world which create a surplus of cheap labor also drive down wages in the North and deter unionization.

definition of the term, Williamson along with the technocrats and policy leaders who converged on the Washington Consensus can be understood as key 'organic intellectuals'.

In publicizing the Washington Consensus, he claimed to be speaking for 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" (Williamson 1990: 7). As the spokesman for those who converged on the Washington Consensus, Williamson noted that the debt crisis and stagnant economies of Latin America could only be resolved if developing countries "fulfill their part of the proposed bargain by setting their houses in order, undertaking policy reforms, or submitting to strong conditionality" (Williamson 1990: 7). Williamson also asserted that the political objectives of Washington did not influence the Washington based economic policies geared toward Latin America.[34]

Williamson claimed to be representing the worldwide 'intellectual trends' during the time which were coming to an agreement over economic policy (Williamson 1993: 1329). What is striking about Williamson's account of the intellectual climate and assuming that he does actually represent the views of most neo-liberal oriented intellectuals, economists, financial technocrats and Washington elites, is the persistence to present the free market reforms as deriving from an objective source of knowledge. On reporting about what was 'conventional wisdom' at the time, Williamson said; "I tried to

[34]Williamson argues that "Washington certainly has a number of other concerns in its relationship with its Latin neighbors (and, for that matter, with other countries) besides furthering their economic well-being. These include the promotion of democracy and human rights, suppression of the drug trade, preservation of the environment, and control of population to growth. For better or worse, however, these broader objectives play little role in determining Washington's attitude toward the economic policies it urges on Latin America" (Williamson 1990: 8).

describe what was conventionally thought to be wise rather than what I thought was wise: this is, it was intended as a positive rather than a normative list" (Williamson 1993: 1329). He argued that the list of policy reforms attached to the Washington Consensus depicted a 'universal convergence' deriving from an agreement over good policy choices (Williamson 1993: 1330). Moreover, in accordance with classical liberal economic thought, Williamson sees a clear separation between the economic policy reforms of the Washington Consensus and political issues. He asserts that political issues such as 'human rights' and 'racism', strictly derive from 'value judgments', but the policies aimed at restructuring economies around outward oriented production and macroeconomic discipline is 'essentially a positive one' (Williamson 1993: 1330).[35]

While the list of policy instruments subsumed under the Washington Consensus were formulated for Latin America, they are generally regarded as being applicable anywhere (Williamson 1993: 1332). The framework has guided development policy-making in Latin America and the rest of the developing world since the early 1990s is divided into ten discrete policies. The next several paragraphs will discuss each of these policy instruments.

Fiscal Discipline. Governments need to find ways to reduce deficits and create balanced budgets. Large government debts are the source of macroeconomic inflation, payment deficits and capital flight. Government leaders need to find the 'courage' to ensure that spending on public expenditures does not outpace the available financial

[35]In his words, Williamson says: "Indeed, the chances of removing these basic economic issues from the political agenda, insomuch as the latter depend solely upon value judgments whereas the superior economic performance of countries that establish and maintain outward-oriented market economics subject to macroeconomic discipline is essentially a positive question. The proof may not be quite as conclusive as the proof that the Earth is not flat, but it is sufficiently well established as to give sensible people better things to do with their time than to challenge its veracity" (Williamson 1993: 1330).

resources to cover these expenses. A sound budget deficit should not exceed one or two percent of total GDP output unless excess debt is being incurred to finance essential infrastructure. A priority should be given to controlling inflation by scaling down the size of state-run enterprises, local governments and central banks.

Public Expenditure Priorities. When attempting to decrease fiscal deficits, decisions need to be made about whether to increase taxes or cut public expenditures. The Consensus tries to distance itself from the 'supply side' economics of the Reagan administration by allowing for increased taxes under acceptable conditions. This also entails a deviation from 'Reaganism' by calling for the redirection of a proportion of funds that traditionally go to military expenditure to be invested in things such as health care and education. Whereas Reagan generally diverted funding away from social programs, Williamson asserts the need to invest more in human capital because it helps the disadvantaged.

Tax Reforms. Whereas Williamson implies that an increase in taxes to fund important public expenditures is acceptable, he seems to backtrack on this under the policy instrument of ‘tax reform'. Instead, increasing taxes to pay down fiscal deficits is not a sound alternative to simply cutting public expenditures. According to Williamson, the consensus finds that any general increase in taxes is 'irresponsible' and 'incomprehensible'.

Interest Rates. The Consensus has two guiding principles in relation to interest rates. First, interest rates should be market-determined. State determined interest rates may lead to arbitrary controls and the 'misallocation of resources' by government bureaucrats. It has to be suspected that the control over certain credit markets by the state may lead to

increased corruption. Second, real interest rates should be positive to encourage savings and discourage capital flight.

The Exchange Rate. Similar to interest rates, exchange rates should be determined by market forces. However, governments can intervene to produce a competitive exchange rate. An acceptable exchange rate is one that achieves an increase in a country's exports. Thus, a competitive exchange rate is essential for meeting a fundamental macroeconomic policy of creating an 'outward oriented' economy. This also includes the production and exporting of non-traditional products. Moreover, an export driven economy can overcome the balance of payments dilemma that is usually associated with the policies of import substitution industrialization. Furthermore, the Consensus emphasizes the outward orientation of production is essential for economic growth.

Trade Liberalization. The creation of an export oriented economy is also highly dependent on the liberalization of trade. Countries need an abundance of access to imports because it will result in more competitive prices of products and promote consumerism. The old policies protecting domestic industries only incite reciprocal protectionist policies by other potential trading partners. Overall, an emphasis should be placed on the policies of 'free trade'. Tariffs can be used to protect infant industries, but should not exceed twenty percent and should be closer to ten percent.

Foreign Direct Investment. Restrictions on foreign direct investment (FDI) should be discouraged and are considered to be irresponsible. FDI brings essential skills, capital, technology and educated professionals which can promote the production of goods to be sold in the domestic market to increase exports. Moreover, protections against FDI only derive from economic nationalism, which should be discouraged.

Privatization. The main rationale behind privatization is that privately run firms are more efficient than state-run firms. This is attributed to the simple fact that managers of private firms have more incentive to run them more efficiently because they have a personal stake in the firm. Moreover, private firms are motivated to procure profits out of the fear of bankruptcy; whereas state firms often times have access to an unlimited amount of funds, leading to wasteful government spending. Countries that allow state firms to persist do so out of sentiments of nationalism, which should be seen as a deterrent to economic progress. Williamson takes the view that state-enterprises are sometimes preferable in cases where private firms might create environmental damage or increase rates on public transportation. However, he notes that it is the typical view of Washington that all state firms should be privatized.

Deregulation. The move toward deregulation is another way to enhance competition within the economy. The Consensus notes that Latin American countries could benefit from deregulation considering that the domestic economies are heavily regulated. Furthermore, regulation only leads to corruption and inefficiency by acting as a barrier to domestic and foreign firms that may offer products or services at more competitive prices.

Property Rights. There is a general agreement within the Consensus that private property rights are insecure in Latin America. Property rights are essential to a liberal economy and the legal system should enforce the right to private property without excessive costs. These rights should also be extended to the informal sector as well (Williamson 2003: 9-17).

Williamson concluded that the Consensus was based on “prudent macroeconomic policies, outward orientation, and free-market capitalism” (Williamson 2003:18). He also claimed that the United States often does not abide by the same list of policy instruments listed in the Washington Consensus (Williamson 1990: 18). He noted that even though the United States fails to follow the policies it preaches, this should not discredit the Washington Consensus and the positive role it can play in Latin America (Williamson 1990: 18). Moreover, Williamson also stated more recently that the policies of the Washington Consensus were a “godsend to the “opponents of reform who yearned for socialism or import-substituting industrialization or a state in which they could play a leading role” (Williamson 2003: 325).

Williamson and other proponents of the Washington Consensus, including more recently updated versions such as the ‘Post-Washington Consensus’, have maintained that their views should not be held synonymous with neo-liberal ideology or the ‘supply side’ economics associated with the Reagan administration (Williamson 2003: 326). Williamson implies because the policy instruments of the Washington Consensus came out of Washington, anyone with a “smidgen of anti-Americanism could be persuaded to foam at the mouth with indignation at the idea that Washington was seeking to impose its interests, and then they would, it was hoped, be easy to recruit to the antireform cause”(Williamson 2003: 326). Williamson argues that a distinction can be made between himself along with the other technocrats and policy leaders who converged to form the Washington Consensus and the ‘neo-liberalism’ deriving from the Mont Pelerin Society, and developed by Friedman and Hayek and implemented by political leaders such as

Reagan and Margaret Thatcher (Williamson 2003: 326).[36] He concedes that 'non-neoliberals' agree with 'neo-liberals' on many of the same macroeconomic policies. However, Williamson again tries to distance himself from the neo-liberalism depicted in this thesis by implying that neo-liberalism is based on the political agenda of Washington, while the Washington Consensus derives from objective economic facts, some of which just so happen to overlap with the ideas of neo-liberal ideology.

Despite Williamson's convictions, the Washington Consensus on face value cannot be understood as an objective policy list, since it perpetuates neo-liberal hegemony. As discussed in chapter two, all social theory is predicated on a kind of ideological undertone. Williamson implies that critics are too inclined to disagree with the Washington Consensus by conveniently associating it with neo-liberal ideology (Williamson 2003: 326). However, whether or not Williamson and proponents of the Washington Consensus claim that it is not attached to neo-liberal ideology is irrelevant. For the most part, the ten policy instruments listed under the Washington Consensus resonate strongly with the neo-liberalism discussed in chapter four that eclipsed post-war Keynesianism and has taken a hegemonic position.

Moreover, the hegemonic discourse and policy implementation of neo-liberalism is not completely uniform across space and time. There is some deviation within the paradigm of thought among intellectuals, technocrats of financial institutions, political

[36]In Williamson's words: "The ideological agenda was asserted to be that of neoliberalisim, meaning the set of ideas emanating from the Mont Pelerin Society and developed primarily by Milton Friedman and Friedrich von Hayek, and then to some extent implemented by Ronald Reagan and Margaret Thatcher when they were in power. There were of course important areas of overlap between my original meaning and the neoliberal interpretation of the term, for most neoliberals believe in macroeconomic discipline, privatization, a market economy, and free trade. (So do lots of non-neoliberals; that is to say that there was a consensus that these ideas make sense. Indeed, non-neoliberals seem to be much better at implementing some of them, notably fiscal discipline, at least to judge by what happens in Washington" (Williamson 2003: 326).

leaders and business executives of multinational corporations. For example, some fundamental neo-liberals may be completely against any form of state intervention, while others such as Williamson advocate the need for government in instances to protect the environment and human rights (Williamson 1990: 8-17). However, as Richard Peet notes, neo-liberalism is nothing more than the renewal of late nineteenth century classical economics that emphasizes free trade, free markets and anti-statist attitudes (Peet 2007:114). It could be argued that all neo-liberals, including those adhering to the Washington Consensus share these sentiments. Moreover, Peet argues that the Washington Consensus represents and helps to facilitate what he refers to as the 'pentagon of economic policy power' (Peet 2007: 115). Peet sees the Washington Consensus as the ideological core that links together a neo-liberal hegemonic bloc consisting of wall Street investment banks, Washington think tanks, elite academics, the US Treasury, the Federal Reserve and the IMF and World Bank (Peet 2007: 110). The perspective being taken in this paper is similar to Peet's argument. The policy instruments listed under the Washington Consensus do not derive from an objective source and are pro-rich.[37]

Conclusion

The purpose of this chapter has been to provide a historical overview of the changing nature of international financial institutions such as the IMF and World Bank in conjunction with the transition to neo-liberal restructuring in the third world. Financial deregulation in the developed world during the early 1970s had a reverberating effect on

[37]Peet states it this way: "These are not politically neutral, science based policy proposals. They come from a 'mainstream' economics infested with right wing, pro-rich neoliberal ideologies. They are part of the immoral attitude that 'development' can only come to the poor people of the world *through* increasing the power and profit of the already rich people of the world. That's what I think" (Peet 2007: 118).

the entire world economy. By this time, the political economies of developing states were already integrated into global markets. The sudden disintegration of Bretton Woods combined with an enormous influx of ‘petrodollars’ proved to be detrimental to the plight of Latin America and the rest of the developing world. Transnational banks were eager to provide loans to third world leaders who were willing to finance away their country’s future well-being. As a result, much of the developing world has been caught in a perpetual debt trap during the past three decades. Consequently, debt has hindered the possibility for third world sovereignty and independence. More importantly, it has opened up the possibility for free market restructuring in the developing world and provided transnational capital with new opportunities for investment. Structural adjustment policies evolved into the Washington Consensus by 1990. The policy guidelines outlined by the Washington Consensus can be seen as ‘organic’ to neo-liberal hegemony. In chapter six, the effects of free market reforms, particularly in Latin America, will be discussed.

CHAPTER 6

THE RECORD OF STRUCTURAL ADJUSTMENT PROGRAMS

Chapter five introduced the ten policy prescriptions promoted as part of the Washington Consensus: fiscal discipline, public expenditure priorities, tax reform, interest rates, exchange rates, trade liberalization, foreign direct investment (FDI), privatization, deregulation and property rights. For the most part, many of these policies are designed to overlap with each other. For example, public expenditure priorities and cutting taxes are intended to promote fiscal discipline while liberalization and privatization foster foreign direct investment. Strong property rights provide more confidence for potential foreign investors. Flexible exchange rates support the exportation of manufactured goods. Competitive exchange rates along with high interest rates also provide an incentive for foreign direct investment. In chapter five, it was asserted that neo-liberal structural adjustment policies, such as those outlined in the Washington Consensus, are pro-rich and hurt the poor. The purpose of this chapter is to discuss the results of these policies in order to determine the validity of this argument.

Professionals, economists and technocrats of the first world have taken it as an objective given for about three decades that third world countries can only develop if they embrace a narrow, western brand of economic liberalism. On the other hand, a growing proportion of the population in developing countries views structural adjustment policies, such as those of the Washington Consensus and the IMF and World Bank as failures and instruments of transnational capitalism. Regardless, the record on structural adjustment policies in Latin America and elsewhere in the developing world suggests that

development under the guise of neo-liberalism remained unsuccessful throughout the 1990s and continues that way today.

Nonetheless, by the early to mid 1990s, almost every Latin American country adopted the free market reforms outlined in the Washington Consensus. Moreover, these policies were enacted in conjunction with the continuation of the Brady Plan which lasted until 1994. Eighteen countries in Latin America, including larger economies such as Mexico, Argentina and Brazil entered into debt relief plans with lenders. Overall, Latin America received $60 billion in debt forgiveness of the $180 billion that it owed to international banks. Each country received about a 30 to 35 percent decrease in their debt repayments (Vasquez 1996: 235-6). Attached to these debt forgiveness deals were conditionalities promoting free market reforms. Considering the economic stagnation and crippling debt that plagued Latin America by 1990, many countries had little choice but to accept the deals and further liberalize their economies. The economic performance in the first half of the decade suggested that the free market reforms were working. Gross domestic product grew throughout the region and poverty decreased during the first half of the 1990s.

However, by the mid 1990s, Latin American countries fell back into economic crisis. Mexico was the first country to see its economy collapse, followed by Argentina and Brazil. Whereas the 1980s is often referred to as the 'lost decade' in Latin America because of negative growth and booming debt, Panizza refers to the second half of the 1990s and early 2000s as the 'lost half-decade' (Panizza 2009: 2). Despite the optimism that many liberal economists shared after free market reforms in the first half of the decade, by the second half of the 1990s, GDP was once again declining and poverty was

increasing (Williamson 2003: 1). Moreover, after over two decades of substantial structural adjustment policies in the region, including the ones deriving from the Washington Consensus, the situation did not change much in Latin America. In short, the policies Williamson and other economists referred to as a 'godsend' to the developing world create social and political problems. The next several pages will discuss the failures of free markets reforms by focusing on poverty, inequality, growth and debt.

Poverty and Inequality

Since the early 1980s and continuing into the 1990s with the Washington Consensus, growth and debt reduction have been the focus of structural adjustment policies. While the IMF has traditionally not made fighting poverty a priority and the World Bank turned away from it after the 1970s, poverty reduction and movements toward income equality are indicators of economic and political progress. Furthermore, recent research has shown that neo-liberal structural adjustment in Latin America has correlated with a substantial increase in overall social inequality, polarization and poverty (Robinson 2008; Damian and Boltvink 2006; Hoffman and Centeno 2003; Reygadas 2006). The way in which poverty is measured remains problematic. The traditional approach used by institutions such as the World Bank has been to measure as national product per capita. More inclusive methods such as the Human Development Index combine per capita income with other attributes such as life expectancy, literacy, health, nutrition and infrastructure. However, Robinson points out that orthodox methods used by international financial institutions are often partial, arbitrary and do not reveal the full extent of social inequality (Robinson 2008: 251). Damian and Boltvinik explain that the measurement used by the Economic Commission for Latin America and the Caribbean (ECLAC) provides a more

adequate way of measuring poverty in Latin America. The ECLAC measures poverty by income in relation to the cost of food items. This includes the varying prices of food across different countries and the nutritional requirements within each country (Damian and Boltvinik 2006: 148).

Overall, the total number of poor people increased in Latin America from 136 million in 1980 to 220 million in 2002, amounting to a 61.8 percent increase (Damian and Boltvinik 2006: 145). The percentage of people living under the poverty line increased from 40.5 percent in 1980 to 44 percent in 2002. Extreme poverty increased during the same time from 18.6 percent to 19.4 percent. Poverty reached its highest peak in 1990 at 48.3 percent and decreased to 42.5 percent in 2002. Honduras had the highest poverty rate in 2002 at 77.3 percent, followed by Nicaragua at 69.4 percent, Bolivia at 62.5 percent, Paraguay at 61 percent and Guatemala at 60 percent. Uruguay possessed the lowest poverty rate at 15.4 percent. The three largest countries, Argentina, Mexico and Brazil, possessed poverty rates of 41.5 percent, 39.4 percent and 37.5 percent (ECLAC data, as compiled by Damian and Boltvinik 2006: 146-7). Robinson explains that technocrats at the international financial institutions have been quick to attribute the reductions in poverty between 1990 and 2000, particularly in early 1990s to the structural adjustment policies of the Washington Consensus (Robinson 2008: 251). However, Robinson also points out that the seemingly effectiveness of the Washington Consensus to reduce poverty in the early 1990s was offset by an increase in income distribution, which is a result of the same policies. Moreover, the persistence of poverty is related to a disparity in the distribution of income among different classes (Robinson 2008: 252).

Hoffman and Centeno contend that not only has the inequality of income distribution increased, but Latin America remains the most unequal region in the world (Hoffman and Centeno 2003: 365). While the region has historically been plagued by income inequality, the pre-1980 era of import substitution industrialization did produce some upward mobility and relative gains in equality of income (Hoffman and Centeno 2003: 367). However, every country in Latin America since the 1970s, except for Columbia in the 1980s, has experienced a significant increase in the concentration of wealth (Hoffman and Centeno 2003: 367). For example, between 1984 to 1994, the period that introduced free trade policies in Mexico, the wealthiest 10 percent of the population increased its concentration of wealth by 20.8 percent, whereas the income of the poorest 10 percent decreased by 23.2 percent (Hoffman and Centeno 2003: 368).

Furthermore, the income share of the wealthiest 10 percent in urban areas increased from 26 to 34 percent in Mexico (1984-1996); from 29 to 37 percent in Panama (1979-1997); from 29 to 33 percent in Paraguay (1981-1997); from 30 to 36 percent in Argentina (1980-1997), from 39 to 44 percent in Brazil (1979-1996) and from 35 to 40 percent in Columbia (1990-1997). In addition, the richest 10 percent of Latin Americans possessed 25 times the income of the poorest 10 percent in 1990. By 2002, that ratio increased to 40 times (Robinson 2008: 253). The GINI coefficient is one method often used to measure income equality (0 represents perfect equality and 1.0 is absolute inequality). In Latin America this number rose from 0.45 in 1980 to 0.50 in 1990 to 0.53 in the late 1990s (Reygadas 2006: 121). The world average in the late 1990s was 0.38 and 0.34 in developed countries (UNDP 2004:43). In 2004, the GINI coefficient in Latin

America was 51.7 percent, compared to 40 percent for the world average (Ungar 2006:172).

Furthermore, Hoffman and Centeno point out that statistics which depict poverty and income distribution do not reveal the larger social issues that derive from these problems (Hoffman and Centeno 2003: 368). Most noticeably has been the increase in crime in most Latin American cities since the introduction of free market reforms. The homicide rate across the region increased by 41 percent in the 1990s, three times the global average, and giving Latin America the highest rate in the world (Ungar 2006: 171). In Venezuela alone violent property crimes increased threefold between 1990 and 2003 (Ungar 2006: 171). The population of Latin America has grown since 1980 by 30 percent and the number of people living in urban areas increased from 65.1 percent to 75.6 percent (Ungar 2006: 172). Not surprisingly, increases in crime and poverty have been concentrated in the cities. The murder rate in large Latin American cities is often three or four times that of rural areas. Sharp spikes in violent crime may lead to further militarization of police forces and confrontations with organized gangs that undermine stability within city limits. In 1992, the Sao Paolo police killed 1470 civilians (Hoffman and Centeno 2003: 368).

The persistence of income inequality also has a substantial impact on labor. For example, the increase in poverty and income inequality has often meant that more members of the household, mostly woman and children who are paid lower wages, are thrust into the workforce. Privatization and deregulation coupled with the liberalization of the economy means that a large percentage of available workers enter into flexible labor markets which deters unionization and suppresses wages, ensuring that even highly

productive workers will remain in a perpetual state of poverty or make just enough to stay above the poverty line. Moreover, the anti-statist and regulatory discourse and insistence on creating flexible labor markets that derives from policy agendas such as the Washington Consensus only serve the interests of transnational capital and puts labor at a precarious disadvantage.

Portes and Hoffman (2003) note that following the free market reforms of the 1990s, wages and the protection of workers declined substantially in Latin America. They contend that by the end of the decade, three-fourths of the proletariat (proletariat representing 80 percent of the population) did not make enough money to surpass the poverty level under the more strict guidelines of the ECLAC method for measuring poverty (Portes and Hoffman 2003: 59). Moreover, the results of their study on neo-liberal reforms and the effects on labor are significant. In every country except for Chile, real wages under neo-liberal reforms either remained stagnant or declined. Overall, the average incomes of all subordinated classes declined. With the exception of Panama and Chile, the income of the dominant classes grew faster than average. As a result, the Washington Consensus reforms only exacerbated income inequality in the region and further marginalized the working poor: “More than ever, the fact was reaffirmed that, in Latin America, it is not necessary to be unemployed in order to be poor” (Portes and Hoffman 2003: 65).

While a gradual increase in wages and job security may lead to higher standards of living and strengthen communities, policies such as trade liberalization and deregulation places an emphasis on export oriented economies that require a surplus of cheap labor, which can result in workers remaining fragmented, unorganized and poor. Whereas

‘flexible labor’ markets are supposed to provide workers with additional jobs and more employment opportunities, most of the jobs are low wage, temporary and without benefits. Moreover, deregulation and the restructuring of domestic economies to meet the needs of foreign direct investment ensures that transnational corporations are insulated from any significant regulations that may intertwine the production process with the interests of the community in developing countries. Market liberalization may provide consumer products and advancements in technology to developing countries, but as soon as workers begin to organize and demand better wages, transnational corporations can easily move their operations from one developing country to another. Furthermore, Hershberg and Rosen note that the movement toward flexible labor entails much more than just the inability of workers to procure long-term contracts and benefits. The fragmentation of the workforce in Latin America that has correlated with increased social inequality also imposes cultural changes in the global periphery. Flexible labor markets incline workers to think as individuals and accept the changes in the workforce, which result from unrecognizable, external market forces, as unavoidable and inevitable. (Hershberg and Rosen 2006: 10).

Growth

It can be taken as a given by economists on both the left and right that economic growth is a good thing. Sustainable growth can play a positive role in the creation of jobs and increased wages, which in turn has the potential to alleviate poverty, inequality and generate revenue for the state. As mentioned in chapter five, growth in Latin America was at its highest during the post-war era of Keynesianism. Between 1965 and 1980, Latin American GDP grew at an average of 6.1 percent. In the 1980s or what is

considered to be the 'lost decade', growth was at its lowest point at 1.6 percent (World Development Indicators 2009). In 1990, it was at zero, but jumped back up to 4.5 percent between 1991 and 1994 after the first generation reforms of the Washington Consensus. It was during this time that free market reforms appeared to be working. However, the short-term growth of the early 1990s was largely attributed to an influx of speculative investing by transnational banks after Latin American countries further opened their economies to foreign direct investment.

Following the Mexican Peso Crisis, growth managed to average only 2.4 percent between 1995 and 2000. In 1999, with the onset of economic downturn in Argentina and Brazil, growth averaged zero percent throughout the region. Growth shot back up to 4 percent in 2000, but declined again to zero during 2001 and 2002. Overall, growth in Latin America between 2000 and 2008 averaged around 3.6 percent (WDI 2009). Furthermore, the stagnation of growth in Latin America since the 1980s represents a global pattern of economic slowdown since neo-liberalism became hegemonic in the late 1970s to early 1980s. Global GDP averaged 5.4 percent between 1961 and 1973, 3.2 percent between 1974 and 1990 and 2.8 percent between 1991 and 2008. Sub-Saharan Africa, which along with Latin America has traditionally had the slowest growing economies of non-OECD countries, grew at 4.2 percent between 1965 and 1980, but has averaged less than three percent growth ever since global restructuring.

Moreover, since structural adjustment became used as a policy instrument by the Reagan administration in the early 1980s, it has been the countries that rejected the Washington Consensus that have produced high and consistent rates of growth. The only two non-OECD regions in the world that have experienced substantial growth have been

East Asia and South Asia. Most notably, India and China account for much of the growth in Asia. East Asia has grown consistently at over 7 percent since 1965 and South Asia has grown at over 5 percent since 1980 (WDI 2009). Whereas the Reaganites, Washington elites and advocates of the Washington Consensus have preached for limited governments and liberated markets, the economies of countries such as China and India have been directed with strong government planning while slowly adopting certain liberal economic policies when it has deemed to be beneficial.

Stiglitz notes that China and India have been able to take advantage of globalization by opening up their economies slowly and ensuring that domestic industries were well developed before competing in the global market (Stiglitz 2002: 60). Not surprisingly, these regions have been substantially more successful in reducing poverty than their Latin American counterparts that were subjected to drastic free market reforms in the 1990s. As mentioned before, measuring poverty is controversial and subjective. Using the method employed by the World Bank (i.e., those living on less than $1 dollar a day), extreme poverty in Latin America remained stable; increasing only from 10 percent to 11 percent between 1981 and 2001 (this number is higher using the ECLAC method). In contrast, the percentage of those living in extreme poverty decreased in East Asia from 58 to 15 percent and from 52 to 31 percent in South Asia during the same time period (Sachs 2005: 21). However, it should also be considered that much of Asia has also experienced to the same global trend of income inequality and wealth concentration.

The Consequences of Perpetual Debt

One of the intentions of structural adjustment policies since the early 1980s has been to reduce debt. Latin America and much of the developing world remain burdened by

substantial debt. Latin American debt alone increased from $50 billion in 1974 to $300 billion in 1981 and to more than $417 billion in 1987 (Robinson 2008: 260). After further free market restructuring, debt increased to $533 billion in 1994 to $761 billion in 2004 and slightly decreased to $633 billion in 2006 (ECLAC 2006: table A-18). Moreover, what is significant about debt is not necessarily the amount, but the way it has been used for political leverage over the third world by financial institutions. Robinson notes that debt repayment to first world Banks has served as a mechanism to implement neo-structural adjustment in the developing world. After lending began to dry up in the mid 1980s, Latin American countries were hard pressed to further open their economies to the interests of international banks. Since that time, transnational capital has drastically increased its power in the developing world (Robinson 2008: 261). Third world governments face the difficult choice of defaulting on massive loans or generating enough funds to cover domestic programs. When budgets become too tight and default seems to be the only option, state leaders are often pressured to adopt strict free market reforms by international financial institutions and private banks.

However, Robinson also points out that the image of international financial institutions imposing neo-liberal restructuring on debtor countries is misleading. As discussed in the previous section, Latin America suffers from a gross disparity in wealth, which means that it is a highly stratified region consisting of an elite class, a weak middle class and descending lower classes. Policies instruments such as those formulated by the Washington Consensus not only augment the power of transnational elites, but also members of elite classes across Latin America and the rest of the developing world. Institutions such as the IMF and World Bank and transnational corporations could not

impose their interests on developing countries without ‘organic intellectuals’ such as professionals, technocrats and financial experts of third world countries who share the same vested interests (Robinson 2008: 262). Many of these professional elite in the third world also hold significant investments themselves in foreign countries, helping to form a transnational network between the developed north and developing south.

The onset of perpetual debt in the developed world since the 1980s, which has enabled capital to become more mobile through structural adjustments, has meant that many countries are threatened by ‘capital flight’. The opening up of third world economies through liberalization, foreign direct investment and market determined exchange rates exposes portions of society to the whims of transnational investors. The idea of foreign direct investment may appear to benefit third world populations by bringing in much needed infrastructure, professionals, skills and technology, but most foreign direct investment since the 1980s has been in the form of financial ventures such as international investment bonds. The aftermath of the Washington Consensus, which stressed such policies as deregulation, privatization and liberalization was characterized by an investment bonanza throughout Latin America. In the 1990s, it became an attractive region for speculation by foreign investors (Potter 2000: 65).

Overall, between 1991 and 1997, foreign direct investment in Latin America increased nearly fivefold. Contrary to those in the first world who advocate for foreign direct investment, a significant portion of the money that flowed into Latin America during this time was in the form of foreign portfolio investment (FPI) such as diversified bonds and stocks (Robinson 2008: 262). Between 1980 to1999, the peak year in Latin America, foreign portfolio investment in the region increased from $6.1 billion to 86.5 billion

dollars (Correa and Vidal 2006: 169). By far, Mexico, Brazil and Argentina saw the largest increases in this type of investing during the 1990s (Robinson 2008: 262). Moreover, market liberalization and the influx of foreign investment has also meant that many of the banks in Latin America are either foreign owned or have substantial investments in foreign markets (Correa and Vidal 2006:171). For example, in 2001, the Spanish banks BBVA and BSCH had over thirty branches in ten Latin American countries with assets of around $153 billion dollars or 10 percent of Latin American bank assets at the time (Correa and Vidal 2006: 171).

More importantly, the liberalization of markets and unregulated inflows of capital through foreign portfolio investment mean that financiers from the first world can place money into a country just as fast as they can pull it out. Whereas foreign investment is supposed to bring great rewards to impoverished populations in Latin America and throughout the developing world, capital inflows through foreign portfolio investment often only procure profits for private firms and investors (Correa and Vidal 2006: 174). Moreover, the stripping away of post-war Keynesian safety nets and the further demise of import substitution industrialization throughout the 1980s, coupled with advances in communication technologies enables investors to pull money out of a country by clicking a computer mouse. Free market reforms more often than not seem to ensure that international investors are exempt from any social obligation in the third world. This provides an incentive for investors to invest during short durations of economic growth and quickly pull money out of third world countries (i.e., capital flight) when the market hits a downturn.

The result is that large numbers of people in Latin America and elsewhere in the developing south are often held hostage by a miniscule minority of the world's population who with the help of international financial institutions and third world elites, arbitrarily direct the political-economic destinies of developing countries. However, as mentioned before, neo-liberal hegemony stems from transnational class relationships. State leaders and elites of developing countries compete with other countries to attract foreign investment, often regardless of the intentions of the investment or how it will impact the working classes and poor. In order to receive investment, which can generate growth, create jobs and reduce debt, countries are rated by transnational firms according to their investment climates. Countries that are agreeable to free market policies are considered to be emerging markets. Schwartzman explains that emerging markets must meet two important reforms. First, countries must provide unlimited access to investment opportunities, and second "detailed information regarding those opportunities. While privatization, deregulation, and liberalization facilitate the entry (and guarantee the exit) of outside investors, transparency gives investors information about the potential security/risk of their investments" (Schwartzman 2008: 281). Thus, countries that are pegged as emerging markets usually receive a large influx of foreign portfolio investment, often allowing transnational capital or neo-liberal hegemony to gain some level of political sovereignty and destiny over a country. The situations that unfolded in Argentina and Brazil in recent years demonstrate the structural power of transnational capitalism.

Argentina began receiving large inflows of foreign capital in the early 1990s after its leaders opened up the economy by creating flexible labor markets, and privatized state-

owned companies, pensions and social security benefits. Argentina was also valued by investors because it possessed a large number of skilled workers, a sound education system, infrastructure, and political stability. The peso was pegged to the dollar in order to control inflation which in turn attracted foreign investors (Harvey 2005: 104). Foreign investment in Argentina increased substantially between 1991 and 1998. In 1991 and 1992 alone, the economy grew at 13 percent and 12 percent. Overall, Argentina's economy grew at an average of 6.5 percent between 1991 and 1998 (World Development Indicators 2009). By the mid 1990s, Argentina was being praised as a model of free market development and a 'poster child' by advocates of the Washington Consensus. However, the economy turned out to be built on a weak foundation. As state enterprises were sold off and debt repayments were made to transnational banks, the government increasingly relied more on foreign investment, much of it in the form of diversified bonds, to keep the economy afloat.

The growing dependency on foreign investment pushed state leaders to implement deeper fiscal discipline, such a selling off additional state enterprises and cutting taxes to attract investors (Robinson 2008: 268). However, privatization resulted in a substantial loss of jobs and unemployment began to undermine the domestic economy. Further liberalization in the 1990s brought with it an influx of cheap, consumer products. Local businesses often could not compete and were forced to close, contributing to unemployment and economic stagnation. The creation of flexible labor markets led to a decline in real wages which when combined with rising unemployment meant a significant reduction in available funds for local and provincial governments. (Petras and Veltmeyer 2003: 96-7). By the late 1990s Argentina's economy was quickly deteriorating

and a crisis began to form that was greatly exasperated by the country's private debt. Argentina's foreign debt grew from $58.7 billion in 1990 to $139.9 billion in 1998. (Petras and Veltmeyer 2003: 74). In 1998, Argentina's interest payments alone on foreign debt consumed 35 percent of its export earnings (Robinson 2008: 267).

International investors and large multinational banks became increasingly concerned about the prospects of a severe economic recession. In the few years leading up to the financial collapse of 2001, transnational banks began to pull their investments out of the country (Petras and Veltmeyer 2003: 75). Amidst the turmoil and panic, small and mid-sized domestic firms began to withdraw their investments as well. The IMF stepped in between 1999 and 2001 with a $6 billion dollar loan to stabilize the economy and prevent the massive outflow of capital. However, these loans were unable to stabilize the economy or prevent a run on banks. In 2001 alone, Argentinean banks lost 17 percent (i.e., $14.5 billion) of deposits (Harvey 2005: 105). In the same year, the ten largest banks decamped $27 billion dollars worth of assets (Petras and Veltmeyer 2003:75). Moreover, the IMF refused to provide additional loans to the country unless the government practiced further fiscal discipline and rescheduled debt repayments. This resulted in substantial layoffs of health, education and other public employees (Petras and Veltmeyer 2003: 74). A loss of state revenue and massive capital flight left the government strapped for funds. In order to make debt payments and prevent the banking system from collapsing, the government froze all bank accounts and seized pensions in order to procure hard currency (Peet 2003: 84).

Personal savings was reduced to a third of what it was before the crisis. Some workers lost all of their savings and were stripped of their pensions (Harvey 2003: 106).

International firms refused to recapitalize the banks and Argentina fell into a depression in December of 2001, which was followed by mass rioting and social unrest. By 2002, unemployment reached 30 to 40 percent in the cities and 60 to 70 percent in the rural areas (Petras and Veltmeyer 2003: 98). Before the induction of free market reforms, Argentina was one of the most economically equal countries in Latin America. By the early twenty-first century, it had been transformed into a highly stratified society, characterized by desperate inequality, unemployment and social uprisings. The poverty rate of Buenos Aries alone increased from 4.7 percent in 1974 to over 50 percent by the end of the century (Reygadas 2006: 124).

Furthermore, in the midst of an economic depression during 2002, the IMF, along with Washington elites called on Argentina's government to cut spending, eliminate social programs, and rescind legislation that sanctioned international banks engaged in illegal activity (Petras and Veltmeyer 2003: 83). In other words, the IMF and others demanded that the Argentinean government ignore the social problems that were taking shape and instead secure enough funds to make debt payments to foreign banks. Moreover, in the view of the IMF, Argentina's economic collapse was entirely the fault of domestic problems and failure to fully implement free market reforms. In the eyes of political and economic elites, Argentina had practiced irresponsible fiscal policies and could only solve its crisis by adhering to sound economic guidelines (Petras and Veltmeyer 2003: 84-5).

Another example of the political power that transnational capital can hold over a country is what took place in Brazil during the 2002 elections. Leading up to the elections, presidential candidate Luis Ignacio de Silva, also known as "Lula", with the

support of the Workers' Party (PT), structured his campaign on an anti-neo-liberal platform. The policies of the Workers' Party centered on land redistribution, expanding social programs to the poor, redistributing income and de-prioritizing debt repayments to clear additional funds for social spending. However, prior to the election, Brazil had already gone through years of free market reforms, during which it incurred a substantial amount of debt to international firms. Between 1980 and 1998, Brazil's private debt increased from $71 billion to $232 billion (Robinson 2008: 267).

In the weeks leading up to the election, it became clear that Lula and the Workers' Party were going to win. This set off a reaction from the vested capital interests that was sure to suffer under potential left leaning policy reforms. Brazil's credit rating score plummeted and investment firms such as Merrill Lynch and Morgan Stanley Dean Witter began to take billions of dollars out of the economy. Large banks such as Bank of America and Citigroup also decamped on large amounts of equity (Robinson 2008: 266). Goldman Sachs discouraged further investing by using a 'Lula-meter' to gauge the possibility of a Workers' Party victory (Schwartzman 2006: 299). More importantly, despite the rhetoric of Lula and the Workers' Party to redistribute income, international investment firms and banks had the ability to send the Brazilian economy spiraling toward a depression. Two months before the election and faced with the possibility of entering office amidst economic chaos, Lula and the Workers' Party backed down by agreeing to a $30 billion loan from the IMF. The loan came with attachments which ensured that Lula would not default on Brazil's foreign debt or abandon the free market reforms that were implemented in the previous decade (Schwartzman 2006: 299).

The structural adjustment policies that have been imposed on Latin America and the rest of the developing world since the 1980s and those that were further implemented after the Washington Consensus seem to only hurt economic performance, increase inequality and weaken the sovereignty of individual countries. The perpetuation of debt that is owed to transnational banks seems to play a significant role in ensuring that developing countries maintain free market reforms. Many developing countries devote a substantial amount of resources to service their foreign debts. For example, in 1998, Mexico spent 59 percent of its budget on making debt repayments (Reygadas 2006: 128). In some cases, interest paid over long periods of time exceeds the original loan balance.

Furthermore, free market reforms such as those of the Washington Consensus seem to make countries prone to crises and economic shocks. Countries are subjected to a one-size fits all version of neo-liberal capitalism which leads to drastic deregulation and liberalization. The result is a mass influx of foreign capital that is invested in a country not with the intention of creating sustainable growth, but with the sole purpose of procuring a profit. The minute a country is no longer deemed to be a good 'investment opportunity', transnational investors pull their money out and place it back into the global market. The economic collapse of Argentina is just one example of how unregulated capitalism can create sudden economic shocks.

The Liberal Assessment

Since the turn of the century, the free market reforms of the Washington Consensus along with the IMF and World Bank have increasingly been subjected to growing criticisms. Much of the backlash against neo-liberal restructuring has derived from the same reasons highlighted before. Free Market reforms have failed to generate sustainable

growth, reduce inequality or significantly reduce third world debt. Despite the apparent shortcomings of the Washington Consensus, some first world elites, such as John Williamson, have been reluctant to abandon a blind faith in the free market. Williamson says in reference to Latin America: “The authors of this volume do not take the view that the liberalizing reforms of the past decade and a half, or globalization, can be held responsible for the region’s renewed travails in recent year” (Williamson 2003: 2).

According to Williamson, economic crises that have erupted in Argentina, Mexico, Asia, Russia and elsewhere in the developing world since the 1990s should not be attributed to the free market system. Instead, Williamson indentifies three problems. First, “Too many countries encouraged money to flood in and overvalue the currency when the capital markets were throwing money at the region” (Williamson 2003: 5). Williamson ignores the idea that debt-strapped countries were coerced into opening their economies to capital and international investors encouraged attractive currency rates in order to squeeze out larger profits. Second, “reforms were incomplete” (Williamson 2003:5). Williamson reaffirms the myopic faith that first world technocrats place in the all encompassing ability of markets to perform efficiently. Third, “policy remained focused on accelerating growth, not on growth plus equity. There remained relatively little concern for income distribution or the social agenda” (Williamson 2003: 6). The same argument has been made recently by liberal economists seeking to modify the Washington Consensus into something that is more socially conscious. This has led to new agendas such as the ‘Post Washington Consensus’ and the ‘Millennium’ project that are aimed at alleviating poverty. However, everything that has come since the Washington Consensus still places an emphasis on free markets. Thus, a paradox exists in

the argument that strong market forces can be used to curtail poverty and inequality because the market, without strong regulations, is inherently designed to create social inequalities.

In contrast to Williamson's assessment, Joseph Stiglitz has been a notable critic of the Washington Consensus and neo-liberal arguments regarding development in the third world. Stiglitz's criticisms of neo-liberal capitalism are significant because unlike the perspective taken in this thesis, Stiglitiz is not a leftist thinker, nor is he sympathetic to Marxism. He is a liberal economist from the United States. He is currently a professor of economics at Columbia University and a former chief economist for the World Bank. Stiglitz believes that free market policies such as fiscal discipline, trade liberalization, privatization and deregulation can play a positive role in the development of third world countries. For Stiglitz, the problem is that "many of these problems became ends in themselves, rather than means to more equitable and sustainable growth. In doing so, these policies were pushed too far, too fast, and to the exclusion of other policies that were needed" (Stiglitz 2002: 54). Stiglitiz notes that technocrats from the IMF and the World Bank as well as other advocates of the Washington Consensus are devoid of pragmatism and instead are driven by an 'ideology' that derives from a belief in market fundamentalism that is related to abstract theories of Adam Smith (Stiglitz 2002: 73).

Stiglitz contends that market fundamentalists derive their ideology from economic models that demonstrate the efficiency of the market under idealistic conditions. However, these models are 'restrictive' and simply cannot be applied to the developing world where information is often incomplete and markets are imperfect (Stiglitz 2002:73-

4).[38] Stiglitz in no way dismisses the liberal paradigm of thought, but he centers his argument on the idea that Keynesian style government intervention is good, desirable and necessary in the development and maintenance of modern markets. He argues the policy prescriptions outlined in the Washington Consensus are related to a lassie faire doctrine of thought that was widely discredited in many parts of the world after the Great Depression (Stiglitz 2002: 74). Furthermore, Stiglitz points out that many OECD countries did not open their economies until after years of state regulation and development. Yet institutions such as the IMF and World Bank, which are driven by the same political perspective of Reagan and Thatcher, arbitrarily demand that developing countries quickly restructure their economies (Stiglitz 2002: 65). Moreover, Stiglitiz strongly disagrees with the market fundamentalist mentality that governs the IMF and World Bank and believes that developing countries should open their economies slowly and only when it is beneficial to development.

In critiquing the Washington Consensus, Stiglitz focuses on three aspects: privatization, liberalization and foreign direct investment. Whereas neo-liberal economists argue that privatization leads to greater efficiency, Stiglitiz notes that rapid privatization is detrimental to developing countries because it results in a drastic loss of jobs. More importantly, job cuts can be more devastating in the third world because developing countries usually do not have the same social safety nets in place such as unemployment insurance. Moreover, state employment is essential in developing countries since private industries may not be developed enough to employ the vast

[38]However, using Stiglitiz's argument is not to imply that free market policies work in the developed world either. Much of the liberal criticism of the free market reforms seems to focus on the failures of neo-liberal economics in the third world, when in reality these policies wreak havoc in the first world as well. An obvious case and a future study could be to examine the negative impact that free market reforms have had on the United States.

majority of people. Furthermore, Stiglitz agrees with the argument that private firms are usually more efficient than public firms, but he recognizes the social costs associated with privatization. Private firms often become more efficient by cutting jobs. This leaves a huge gap in developing countries where poverty and social inequality was already prevalent before free market reforms (Stiglitz 2002: 54-8).

The inability of free market reforms to create jobs and increase wages has resulted in an increase of labor employed in the informal sector throughout Latin America and the developing world. Because the free market excludes the interests of the marginalized poor, many workers have little choice but to work in the informal sector, which sometimes may include jobs in drug trafficking and results in these workers not paying taxes. In Latin America, urban workers employed in the formal sector decreased from 70.2 percent in 1970 to 42.1 percent in 1998 (Robinson 2008: 243). In 2004, Argentina had an unemployment rate of 12.1 percent and 44.3 percent of its workers were employed in the informal sector. In the same year, Columbia had an unemployment rate of 15.5 percent and nearly 60 percent of its workers were in the informal sector (Robinson 2008: 243).

Stiglitiz is critical of trade liberalization for two reasons. First, domestic firms in developing countries cannot compete with transnational corporations. Developing countries are required by the IMF, World Bank and World Trade Organization to quickly eliminate tariffs before their domestic industries can fully develop. This results in additional job losses as local companies go out of business (Stiglitz 2002: 59-60). Because transnational firms are geared toward squeezing out profits, they usually don’t rehire all of the workers laid off by domestic firms. Second, OECD countries, particularly

the United States, do not practice fair trade with developing countries. Transnational firms that are based in the United States push exports of their products to third world countries, but they often favor protectionist policies that give them an unfair advantage in their home markets (Stiglitz 2002: 60). The most obvious example is the trade agreement between Mexico and the United States under NAFTA. Since the mid 1990s, the Mexican market has been flooded with highly subsidized and efficiently produced agricultural products from the United States. Even the most efficient Mexican farmers find it difficult to compete with these highly subsidized corporate farms. Contributing to the problem are additional reforms since the mid 1990s which have pushed for privatizing public lands. As a result, peasants are forced to relocate to overcrowded urban areas. What this creates is a surplus of available labor competing for a fewer amount of jobs. This vast influx of surplus labor drives down wages and deters unionization, resulting in higher profits for transnational firms.

Stiglitiz is critical of foreign direct investment for two reasons. First, after tariffs have been eradicated or greatly reduced through trade liberalization, international firms are often able to gain monopolies in many important industries. Whereas trade liberalization in theory is supposed to provide consumer choice and decrease prices through competition, populations in developing countries usually get stuck with only the products produced by transnational firms. Moreover, when a large firm obtains a monopoly in a developing country, it is often inclined to raise prices on consumer products (Stiglitz 2002: 68). Second, Stiglitz argues that transnational firms often purchase domestic banks and take over the financial system. Stiglitiz argues this was one of the factors leading to the economic collapse of Argentina in 2001. Because many of the banks were foreign

owned, they curtailed their lending to small entrepreneurs and this had a negative effect on growth because local businesses closed, which undermined the economy (Stiglitiz 2002: 69).

Who does the IMF Benefit?

The last several pages have discussed the effects of neo-liberal reforms in the developing world, particularly in Latin America. This section addresses the effects of the International Monetary Fund. More specifically, how have IMF programs affected economic development in the third world? Vreeland notes that as of 2008 140 countries had entered into about one thousand separate arrangements with the IMF (Vreeland 2008: 352). In 2007 alone 49 countries with populations totaling more than one billion people were participating in IMF structural adjustment programs (Vreeland 2007: 1). Moreover, Vreeland notes that while the initial function of the IMF was to help countries with their balance of payments problems, it now is in the business of restructuring economies of third world governments. Through conditionality, the IMF has claimed to be largely concerned with fostering growth in the developing world. Furthermore, after the East Asian Financial Crisis in the late 1990s, the IMF expanded its objectives to encompass the reduction of poverty (Vreeland 2008: 355).

As mentioned before, it can be assumed that sustainable growth, meaning equitable growth, is a good thing. Equitable growth should create jobs and increase wages, which in turn can play positive roles in alleviating poverty and income inequality. Thus, the IMF, at least ostensibly, abides by the belief that growth and a reduction in income inequality can be achieved through free market reforms. However, as Vreeland points out, almost every major study done since the 1970s has found that IMF programs have little

effect, no effect or a negative effect on growth. Most of the early studies conducted before 1990 showed that the IMF usually had no effect or a slight positive effect, while more sophisticated measuring techniques since then have almost always concluded that IMF programs have a negative effect on growth or only a statistically insignificant positive effect on growth (Vreeland 2007: 89). In a study done in 1998, Haque and Khan concluded that IMF programs have a negative effect on growth in the short-term, but after structural adjustment polices are implemented, growth begins to rise over time (Haque and Khan 1998: 19). A similar study used a more advanced methodology for testing the relationship between IMF programs and growth concluded earlier findings suggesting that IMF programs produce positive effects on growth were statistically flawed (Dicks-Mireaux, Mecagni, Schadler 2000: 522).

In a 2000 study, Vreeland and Przeworski controlled for countries which have never entered into IMF programs and those that have. They found that countries which entered into IMF programs suffered from negative growth after completion of the program. In contrast, countries that have never entered in IMF arrangements, but suffered from the same problems such as large fiscal deficits, inflation and balance of payments problems, grew faster without the help of the IMF (Przeworski and Vreeland 2000: 402). Hutchison and Noy (2003: 12) reaffirmed this, finding that the IMF had a negative effect on the growth of Latin American countries that had successfully completed structural readjustment programs. Dreher (2006: 18) concludes that the IMF has been a failure at creating growth. More importantly, Dreher finds that the IMF has a negative effect on growth even in countries that have fully complied with free market reforms.

In regards to the relationship between IMF programs and income inequality, Vreeland notes that there is a clear consensus in the literature that IMF programs help to exasperate income inequality in the developing world (Vreeland 2007: 91). Many have questioned that if IMF programs hurt growth and exasperate income inequality, then why do governments enter into these arrangements? Furthermore, why has the IMF not been abolished or drastically reformed? Vreeland's response to this might be insightful for answering these questions.

> The reason is that by bringing in the IMF, governments gain political leverage, via conditionality, to help push through unpopular policies. For some constituencies, these policies dampen the effects of bad economic performance by redistributing income upward and thus rewarding elites. If the distributional consequences are strong enough, key groups can be made better off even though growth is hurt. But IMF programs doubly hurt the less well off in society: total output growth is lowered, and income is shifted away from them" (Vreeland 2008: 366).[39]

If the IMF is used by third world elites to enhance their economic and political interests as Vreeland suggest, then it is possible that the IMF may also serve the interests of Wall Street, international investors, Washington and transnational banks. Furthermore, it could be that the economists who work for the IMF are driven by a blind faith in free markets despite the evidence that Washington Consensus derived policies do not work in the development of third world economies. Therefore, it can be argued that the IMF implements neo-liberal policies in a way that is by ideology, not economic science.

Conclusion

This chapter has focused on a discussion concerning the results of neo-liberal restructuring in the developing world, particularly in Latin America. The evidence points

[39] It should be pointed out that Vreeland is not a Marxist. He is a professor at Georgetown University, which is an elite American institution. His suggestion that third world elites use the IMF to further their class interest, while subordinating the lower classes, highlights the larger relationship of capitalist class relations that exist across transnational networks.

toward the argument that structural adjustment policies, such as those formulated in the Washington Consensus, have a negative effect on third world development. Recent events also imply that free market reforms are pro-rich and hurt the working classes. Following free market reforms, Latin American countries have experienced increases in income inequality and poverty. This is troubling for a region that has historically been burdened by such problems. Moreover, market friendly policies have failed to create sustainable growth or significantly reduce debt in Latin America.

While this chapter focused on Latin America, the discouraging results of free market reforms in the region are a reflection of larger global trends associated with neo-liberalism. In many places where neo-liberalism has been implemented or has been able to make significant inroads against existing political-economic structures, growth has become stagnant, while inequality and poverty have increased. Furthermore, if free market reforms have been a burden on third world development since the 1980s, then why have these policies not been abandoned? More importantly, why have Keynesianism and state-planning been so drastically replaced by neo-liberal fundamentalism in many parts of the world? If free market ideas are pro-rich and marginalize the poor, then why do they remain hegemonic? These questions make explicit the underlying class relations that are at play within global society.

From the perspective of transnational banks, corporations, industrialist, investors, professionals, technocrats, political elites and other members of the upper class, free market reforms have been highly successful. Behind the rhetoric of eradicating poverty, is a neo-liberal hegemonic class movement which has been efficient at concentrating wealth and marginalizing the lower classes of societies. In other words, free market ideas, such

as those outlined under the Washington Consensus, have consistently remained dominant because they satisfy the narrow, economic interests of the ruling capitalist class. As long as an increasing number of poor remain marginalized, workers unorganized and countries mired in debt, neo-liberalism may well remain hegemonic in the future.

CHAPTER 7

CONCLUSION

As Mark Rupert notes there is an 'impoverishment' that persists in the mainstream of the international political economy literature (Rupert 2003: 181). One of purposes of this thesis has been to present an alternative view of international relations; one that is often marginalized in the field of international political economy. As highlighted in chapter two, the social world consists of subjective meanings that take on objective appearances. One of the themes throughout this paper is no social theory is entirely objective regardless of the claims its advocates proffer. This is not to assert a strict relativism in which the contemporary world order cannot be understood. As demonstrated in chapters four, five and six, an abundance of empirical evidence exists that can be used to understand the current world system from a critical perspective.[40]

Thus, critical theory not only gets past the limitations of objective materialism, but because it is driven by an ethical perspective, it is able to recognize the underlying social forces and interests that play essential roles in constructing social reality. Marx was the first to recognize that life under capitalism has the tendency to present itself as universal, natural and immutable. This is reflected in much of the mainstream realist and neo-liberal institutionalist perspectives of international political economy, both of which are inclined to maintain state-centric interpretations of international relations and often take the emergence of global capitalism as an apolitical process. It could be said that this mode of

[40] The point being made in this paragraph might appear as a contradiction in thought and a perspective consistent with relativism. However, this is not the case. The argument being made in this thesis is that social theory is historically grounded to some extent. Therefore, theories that claim to be objective and employ a methodology of scientific rationalism are not objective. Behind each theory are political motives and perspectives that are not value-neutral. On the other hand, the inter-subjective meanings of society can still be understood and expressed to others under the historical context in which they persist.

thinking is also prevalent in conventional thought as well. However, a Marxist derived interpretation of modern society is conscious of the idea that the current historical situation is ephemeral and transformable. The prevailing ideas, norms, productive practices and institutions that are preponderant in the current world order are not constructed and reproduced objectively. These forces reflect the interests of particular parts of domestic societies and benefit the dominant groups across global society.

The international system has undergone a significant transformation during the last three or four decades. This is often referred to as globalization. The process of globalization has proven to be so significant and controversial because it has entailed the transformation of the state, changes in the patterns of production, consumption, the rise of new institutions, advancements in communication technologies and the spread of certain norms and ideas. Most, if not all of the international political economy literature recognizes the drastic transformation that has transpired on a global scale since the 1970s. However, the way these changes are interpreted may depend on one's ideological perspective and position within society.[41] A Marxist-Gramscian ontology provides an alternative account of the contemporary global situation. From this perspective, the current structure of globalization can be understood as being constructed under the historical context of capitalism. Thus, the underlying driving force of globalization can be characterized as an increasingly asymmetrical class struggle between transnational capitalist interests and the expanding periphery consisting of subordinated populations.

[41] As discussed in chapter two, this gets back to Cox's axiom that, "Theory is for someone and for some purpose" (Cox 1981: 128). Theory is either inclined to maintain the status quo or seeks change in the system. Theory is used as a tool to interpret the world. The theory or ontology in which one embraces may largely depend on his or her social position or ideological orientation.

The end of feudalism and the rise of modernity to a significant extent correlated with the advent of the capitalist mode of production. While other modes of accumulation have existed, capitalism has been the primary economic, social and political system since at least 1500. Within each historical structure are historically constructed ideas, norms, institutions, productive patterns and forms of state that are reproduced through human intellectual and material activity. Moreover, capitalism is an economic-political system that has evolved dialectically and therefore taken different forms over time. Central to the modern structure has been the role of the state and antagonistic class relationships. During the post-war historical structure of Keynesianism, capitalism was contained to some extent by and in the confines of state. The interventionist state enacted regulations and constraints on the flow of capital and, more importantly, imposed policies to redistribute capital accumulation downward from the upper classes to the middle and lower classes.

Even in the United States, relatively strong unionization correlated with an increase in real wages from the 1950s until the mid 1970s (Dumenil and Levy 2004a: 46). However, capitalism, regardless if it is highly regulated or not is prone to crises, contradictions and class inequalities. An asymmetrical class relationship certainly existed under Keynesianism, although the system as a whole was more equitable than neo-liberalism. More importantly, the class compromise that persisted under embedded liberalism was built on antagonistic relations. State-planned capitalism provided a buffer for the proletarian classes against the tendency of the free enterprise system to concentrate wealth into a small minority of the population. By the mid-1970s, however, class relations changed as Keynesianism entered a crisis of accumulation. Economic stagnation

combined with high taxation of the rich and wage increases for the working classes resulted in a falling rate of profit for the upper class.

The rise of neo-liberalism, which has been the driving force behind globalization, did not occur by chance or as the result of some natural evolution of market forces. The global restructuring of capitalism is a reflection of a transnational class movement to restore power to the upper class, fragment the middle classes and further marginalize the poor. A key feature of the structure of globalization has been the reconfiguration of the state to meet the narrow economic interests of the neo-liberal hegemonic class. Whereas the state could potentially be constructed in a way to serve the interests of working classes, the diffusion of state power has allowed for neo-liberal capitalism to become hegemonic on a global level. From this perspective, the concept of hegemony is historically situated as well. Traditionally, hegemony may have been more or less confined to a powerful state, whereas in the contemporary situation, it has emerged as a transnational class movement.

Neo-liberal hegemony is understood here as a ‘movement’ because of its inclination to shape and mold the political-economic structure of global society under a narrow and distorted vision of liberal democracy. Central to the movement of neo-liberal hegemony are the roles of ideas, norms, production patterns, organic intellectuals and the institutions which facilitate them. As discussed in chapter three, this conceptualization of hegemony derives from a revisionist understanding of Gramsci’s thought. Hegemony is achieved through the garnering of consent and policies of coercion that discipline vast populations of people. Moreover, consent and coercion are not always easily distinguishable and neo-liberal hegemony perpetuates in a fragmentary and contradictory way throughout global

society. The overlap of consent and coercion is used to instill a perception of common sense or a way of life that becomes objectified. Rupert identifies this as the globalization of common sense (Rupert 2003: 190).

The movement and success of neo-liberal hegemony to globalize common sense can be attributed to a strong, ideological discourse. Under neo-liberalism, the ability of the bourgeoisie to foster consent among the descending classes has rested on an appeal to free markets. In contrast, the state is regarded only as a barrier to economic efficiency and growth. Pertinent in facilitating the ideas behind market liberalization have been the role of organic intellectuals. In chapter four, the rise of neo-liberal economic theory deriving from both the Chicago School and the Austrian School was discussed. Intellectuals such as Friedman and Hayek were instrumental in exhuming classical liberal economics during a time in which capitalism was being regulated by the Keynesian state. One of the key features of neo-liberal discourse that has held constant since the early days of the Chicago School has been the skillfulness of intellectuals and politicians to present free market ideas as objective facts.

Moreover, an important aspect of globalizing common sense has been creating the perception that there are no viable alternatives to the free market. These kinds of sentiments remain embedded in western media and within elite circles of academia. Moreover, the ideology of market fundamentalism has been the driving force behind the policies of political figures such as Reagan and international financial institutions such as the International Monetary Fund, the World Bank and the World Trade Organization. In chapter five, a list of the ten policy prescriptions known as the Washington Consensus was introduced. These policies were presented by Williamson as an objective and

apolitical doctrine of economic development for the third world. This thesis argues that they are reflective of the larger hegemonic discourse of neo-liberalism. Moreover, from an ideological perspective, central to the discourse of market fundamentalism is an appeal to freedom. It can be taken as a given that the concept of freedom is cherished by members of all classes and social positions. While individual autonomy has always remained a central component of modern capitalism, under neo-liberalism, it has been monopolized under hegemonic discourse to exist in a more excessive and myopic form reflected in the materialistic culture of an Americanized brand of liberal capitalism.

Moreover, Marx recognized the contradictory nature of individual autonomy under capitalism. On the one hand, the right to individual liberty that is protected by the modern, constitutional state allows for political emancipation. Considering that free markets cannot exist without protections of individual liberty, life under capitalism is not entirely oppressive. On the other hand, too strong of an emphasis on individual autonomy creates the opposite effects as society becomes a collection of fragmented individuals preoccupied with market fetishism and self-interested egoism. A key trait of neo-liberal hegemony has been to reconfigure the political-economic structure in such a way as to encourage the latter and limit social solidarity. Thus, even the average worker under neo-liberalism may be socialized to believe that he or she enters into labor relations under equitable conditions, mostly unaware of the asymmetrical power that large, transnational firms possess now that they are liberated from the constraints of Keynesian regulations. Moreover, the distorted vision of individual autonomy under neo-liberalism runs so deep at times that the same worker may despise the idea of unionization as much as the corporate executive.

When the ruling class cannot foster consent through ideology, the use of coercion has been instrumental in the success of neo-liberalism. One of the most obvious and cited cases is the 1973 coup in Chile as discussed in chapter four. Chapter five provided a chronological account of the events that paved the way for the implementation of neo-liberal structural adjustment policies in the third world. It seems unlikely that the demise of Bretton Woods, the creation of Eurodollars, the 1979 interest rate shock, the reorientation of the IMF and World Bank during the Reagan administration and the Washington Consensus were a series of unrelated events. Instead, the evidence suggests that powerful interests have converged since the 1970s to enact economic reforms that do not produce growth or reduce poverty.

Structural adjustment policies and the institutions such as the IMF and World Bank which implement them in the third world serve as the coercive apparatus of transnational capitalism. Since the late 1970s, many developing countries have been inhibited by excessive debt and stagnant economic growth. Development banks and private banks have been eager to provide loans under the conditions that third world countries open up their economies to the global market. Market liberalization, privatization, deregulation and foreign direct investment are preached by business interests and the technocrats who work for the IMF and World Bank as the axioms of success. On any given day, a billion or more people may live in countries in which the government is participating in a program under the auspices of the development banks. What has resulted under globalization in the last three decades is system that is not democratic. Third world populations are stripped of their autonomy to create self-determining societies that might be more reflective of local cultural and social needs. Instead, people are governed by

powerful individuals from transnational firms, banks, international financial institutions, Washington policy makers, academics and third world bourgeoisie who are part of the same transnational class. Moreover, third world countries may be threatened when they reject market liberalization and seek out policies of wealth redistribution; Brazil and Venezuela serve as two recent examples. The first, Brazil, was threatened by capital flight in 2002 and the latter under Chavez was subjected to a failed coup as well as often being branded in the western media as a rouge state.

More importantly, as discussed in chapter six, structural adjustment policies such as those outlined in under the Washington Consensus do not work. Recently, these free market ideas have even been subjected to harsh criticisms by liberal economists such as Joseph Stiglitz. The implementation of trade liberalization, privatization and the inflow of foreign investment only serve to disadvantage workers in the developing world.[42] Moreover, as briefly examined in chapter six, recent research has shown that IMF programs lead to negative growth and increase income inequality in third world countries. The IMF seems to be blinded by a myopic faith in market fundamentalism and mainly benefits the interests of transnational capitalism.

Beyond Neo-Liberalism

There is no doubt that neo-liberalism is latent with dire contradictions and consequences that are proving to be detrimental to vast populations of the world. The crisis of life under capitalism in the twenty-first century is at once political, economic, ecological and cultural. Because it is intended to help foster structural change to the same degree that it is able to explain the system, critical theory provides leverage for addressing this crisis. Therefore, future research should focus on two aspects with the

[42] However, the same argument can also be made about workers in the developed north.

hopes of contributing to progressive change. First, it should provide concrete empirical evidence to show that neo-liberal capitalism is not sustainable from either an economic, ecological or social point of view. Quantitative analysis can also be used at times as a valuable tool in dissecting the shortcomings neo-liberal economic policies. Excluding parts of East Asia and South Asia, global economic growth has been stagnant under neo-liberalism. As highlighted in chapter six, free market policies, such as the Washington Consensus have correlated with an increase in poverty, inequality and social unrest in many parts of the world. Future empirical research should compile reliable sources of information and present these findings in a way that examines whether or not neo-liberal policies are pro-rich and hurt the middle and lower classes.

Chapters five and six focused on the developing world, particularly Latin America. However, the crisis that persists under neo-liberalism should not be confined as a problem that only affects the third world. Class inequalities that have come to characterize globalization are preponderant in the first world as well. Moreover, the distinction between the developing and developed world is becoming increasingly blurred as wealth continues to be concentrated into the hands of a small minority. From this perspective, future research could examine the movement of neo-liberalism under globalization in relationship to the global expansion (including OECD countries) of the third world.

Second, future research should elucidate movements of social resistance and the potential for counter-hegemonic forces that can challenge the contradictory discourse of neo-liberalism. Global society is not static or entirely comprehensibly, but persists fragmentary and dialectically against the backdrop of class positioning. Neo-liberal

hegemony does not dominate in the sense that it completely blankets over society. Instead, it creates contradictions that offer an opportunity for movements and new interpretations of human social relations. One way to find inspiration for progressive change in the future is to draw on the insights of Karl Polanyi. In examining the devastating effects of free market forces in the late nineteenth and early twentieth century, Polanyi argued that modern society was based on a 'double movement'. The first being the market which seeks constant liberation and expansion; the second being movements of social resistance which protect society from the encroachment of unplanned market forces (Polanyi 1957: 130). This should not be interpreted as determinism in which counter-movements will automatically replace neo-liberalism with a more equitable system. On the other hand, the future well-being of global society seems entirely dependent on such a movement.

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