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SECTION ONE

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*Political and  
Economic Dimensions  
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# Neoliberalism as Creative Destruction

*By*  
DAVID HARVEY

Neoliberalism has become a hegemonic discourse with pervasive effects on ways of thought and political-economic practices to the point where it is now part of the commonsense way we interpret, live in, and understand the world. How did neoliberalism achieve such an exalted status, and what does it stand for? In this article, the author contends that neoliberalism is above all a project to restore class dominance to sectors that saw their fortunes threatened by the ascent of social democratic endeavors in the aftermath of the Second World War. Although neoliberalism has had limited effectiveness as an engine for economic growth, it has succeeded in channeling wealth from subordinate classes to dominant ones and from poorer to richer countries. This process has entailed the dismantling of institutions and narratives that promoted more egalitarian distributive measures in the preceding era.

*Keywords:* neoliberalism; globalization; fiscalization; class dominance; subordination

Neoliberalism is a theory of political economic practices proposing that human well-being can best be advanced by the maximization of entrepreneurial freedoms within an institutional framework characterized by private property rights, individual liberty, unencumbered markets, and free trade. The role of the state is to create and preserve an institutional framework appropriate to such practices. The state has to be concerned, for example, with the quality and integrity of money. It must also set up military, defense, police, and juridical functions required to secure private property rights and to support freely functioning markets. Furthermore, if markets do not exist (in areas such as education, health care, social security, or environmental pollution), then they

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must be created, by state action if necessary. But beyond these tasks the state should not venture. State interventions in markets (once created) must be kept to a bare minimum because the state cannot possibly possess enough information to second-guess market signals (prices) and because powerful interests will inevitably distort and bias state interventions (particularly in democracies) for their own benefit.

For a variety of reasons, the actual practices of neoliberalism frequently diverge from this template. Nevertheless, there has everywhere been an emphatic turn, ostensibly led by the Thatcher/Reagan revolutions in Britain and the United States, in political-economic practices and thinking since the 1970s. State after state, from the new ones that emerged from the collapse of the Soviet Union to old-style social democracies and welfare states such as New Zealand and Sweden, have embraced, sometimes voluntarily and sometimes in response to coercive pressures, some version of neoliberal theory and adjusted at least some of their policies and practices accordingly. Postapartheid South Africa quickly adopted the neoliberal frame and even contemporary China appears to be headed in that direction. Furthermore, advocates of the neoliberal mindset now occupy positions of considerable influence in education (universities and many “think tanks”), in the media, in corporate board rooms and financial institutions, in key state institutions (treasury departments, central banks), and also in those international institutions such as the International Monetary Fund (IMF) and the World Trade Organization (WTO) that regulate global finance and commerce. Neoliberalism has, in short, become hegemonic as a mode of discourse and has pervasive effects on ways of thought and political-economic practices to the point where it has become incorporated into the commonsense way we interpret, live in, and understand the world.

Neoliberalization has in effect swept across the world like a vast tidal wave of institutional reform and discursive adjustment. While plenty of evidence shows its uneven geographical development, no place can claim total immunity (with the exception of a few states such as North Korea). Furthermore, the rules of engagement now established through the WTO (governing international trade) and by the IMF (governing international finance) instantiate neoliberalism as a global set of rules. All states that sign on to the WTO and the IMF (and who can afford not to?) agree to abide (albeit with a “grace period” to permit smooth adjustment) by these rules or face severe penalties.

The creation of this neoliberal system has entailed much destruction, not only of prior institutional frameworks and powers (such as the supposed prior state sovereignty over political-economic affairs) but also of divisions of labor, social relations, welfare provisions, technological mixes, ways of life, attachments to the land, habits of the heart, ways of thought, and the like. Some assessment of the positives and negatives of this neoliberal revolution is called for. In what follows, therefore, I will sketch in some preliminary arguments as to how to both understand and evaluate this transformation in the way global capitalism is working. This requires that we come to terms with the underlying forces, interests, and agents that have propelled the neoliberal revolution forward with such relentless

intensity. To turn the neoliberal rhetoric against itself, we may reasonably ask, In whose particular interests is it that the state take a neoliberal stance and in what ways have those interests used neoliberalism to benefit themselves rather than, as is claimed, everyone, everywhere?

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## The “Naturalization” of Neoliberalism

For any system of thought to become dominant, it requires the articulation of fundamental concepts that become so deeply embedded in commonsense understandings that they are taken for granted and beyond question. For this to occur, not any old concepts will do. A conceptual apparatus has to be constructed that appeals almost naturally to our intuitions and instincts, to our values and our desires, as well as to the possibilities that seem to inhere in the social world we inhabit. The founding figures of neoliberal thought took political ideals of individual liberty and freedom as sacrosanct—as the central values of civilization. And in so doing they chose wisely and well, for these are indeed compelling and greatly appealing concepts. Such values were threatened, they argued, not only by fascism, dictatorships, and communism, but also by all forms of state intervention that substituted collective judgments for those of individuals set free to choose. They then concluded that without “the diffused power and initiative associated with (private property and the competitive market) it is difficult to imagine a society in which freedom may be effectively preserved.”<sup>1</sup>

Setting aside the question of whether the final part of the argument necessarily follows from the first, there can be no doubt that the concepts of individual liberty and freedom are powerful in their own right, even beyond those terrains where the liberal tradition has had a strong historical presence. Such ideals empowered the dissident movements in Eastern Europe and the Soviet Union before the end of the cold war as well as the students in Tiananmen Square. The student movement that swept the world in 1968—from Paris and Chicago to Bangkok and Mexico City—was in part animated by the quest for greater freedoms

of speech and individual choice. These ideals have proven again and again to be a mighty historical force for change.

It is not surprising, therefore, that appeals to freedom and liberty surround the United States rhetorically at every turn and populate all manner of contemporary political manifestos. This has been particularly true of the United States in recent years. On the first anniversary of the attacks now known as 9/11, President Bush wrote an op-ed piece for the *New York Times* that extracted ideas from a U.S. National Defense Strategy document issued shortly thereafter. "A peaceful world of growing freedom," he wrote, even as his cabinet geared up to go to war with Iraq, "serves American long-term interests, reflects enduring American ideals and unites America's allies." "Humanity," he concluded, "holds in its hands the opportunity to offer freedom's triumph over all its age-old foes," and "the United States welcomes its responsibilities to lead in this great mission." Even more emphatically, he later proclaimed that "freedom is the Almighty's gift to every man and woman in this world" and "as the greatest power on earth [the United States has] an obligation to help the spread of freedom."<sup>2</sup>

So when all of the other reasons for engaging in a preemptive war against Iraq were proven fallacious or at least wanting, the Bush administration increasingly appealed to the idea that the freedom conferred upon Iraq was in and of itself an adequate justification for the war. But what sort of freedom was envisaged here, since, as the cultural critic Matthew Arnold long ago thoughtfully observed, "Freedom is a very good horse to ride, but to ride somewhere."<sup>3</sup> To what destination, then, were the Iraqi people expected to ride the horse of freedom so selflessly conferred to them by force of arms?

The U.S. answer was spelled out on September 19, 2003, when Paul Bremer, head of the Coalition Provisional Authority, promulgated four orders that included "the full privatization of public enterprises, full ownership rights by foreign firms of Iraqi U.S. businesses, full repatriation of foreign profits . . . the opening of Iraq's banks to foreign control, national treatment for foreign companies and . . . the elimination of nearly all trade barriers."<sup>4</sup> The orders were to apply to all areas of the economy, including public services, the media, manufacturing, services, transportation, finance, and construction. Only oil was exempt. A regressive tax system favored by conservatives called a flat tax was also instituted. The right to strike was outlawed and unions banned in key sectors. An Iraqi member of the Coalition Provisional Authority protested the forced imposition of "free market fundamentalism," describing it as "a flawed logic that ignores history."<sup>5</sup> Yet the interim Iraqi government appointed at the end of June 2004 was accorded no power to change or write new laws—it could only confirm the decrees already promulgated.

What the United States evidently sought to impose upon Iraq was a full-fledged neoliberal state apparatus whose fundamental mission was and is to facilitate conditions for profitable capital accumulation for all comers, Iraqis and foreigners alike. The Iraqis were, in short, expected to ride their horse of freedom straight into the corral of neoliberalism. According to neoliberal theory, Bremer's decrees are both necessary and sufficient for the creation of wealth and

therefore for the improved well-being of the Iraqi people. They are the proper foundation for an adequate rule of law, individual liberty, and democratic governance. The insurrection that followed can in part be interpreted as Iraqi resistance to being driven into the embrace of free market fundamentalism against their own free will.

It is useful to recall, however, that the first great experiment with neoliberal state formation was Chile after Augusto Pinochet's coup almost thirty years to the day before Bremer's decrees were issued, on the "little September 11th" of 1973. The coup, against the democratically elected and leftist social democratic government of Salvador Allende, was strongly backed by the CIA and supported by U.S. Secretary of State Henry Kissinger. It violently repressed all left-of-center social movements and political organizations and dismantled all forms of popular organization, such as community health centers in poorer neighborhoods. The labor market was "freed" from regulatory or institutional restraints—trade union power, for example. But by 1973, the policies of import substitution that had formerly dominated in Latin American attempts at economic regeneration, and that had succeeded to some degree in Brazil after the military coup of 1964, had fallen into disrepute. With the world economy in the midst of a serious recession, something new was plainly called for. A group of U.S. economists known as "the Chicago boys," because of their attachment to the neoliberal theories of Milton Friedman, then teaching at the University of Chicago, were summoned to help reconstruct the Chilean economy. They did so along free-market lines, privatizing public assets, opening up natural resources to private exploitation, and facilitating foreign direct investment and free trade. The right of foreign companies to repatriate profits from their Chilean operations was guaranteed. Export-led growth was favored over import substitution. The subsequent revival of the Chilean economy in terms of growth, capital accumulation, and high rates of return on foreign investments provided evidence upon which the subsequent turn to more open neoliberal policies in both Britain (under Thatcher) and the United States (under Reagan) could be modeled. Not for the first time, a brutal experiment in creative destruction carried out in the periphery became a model for the formulation of policies in the center.<sup>6</sup>

The fact that two such obviously similar restructurings of the state apparatus occurred at such different times in quite different parts of the world under the coercive influence of the United States might be taken as indicative that the grim reach of U.S. imperial power might lie behind the rapid proliferation of neoliberal state forms throughout the world from the mid-1970s onward. But U.S. power and recklessness do not constitute the whole story. It was not the United States, after all, that forced Margaret Thatcher to take the neoliberal path in 1979. And during the early 1980s, Thatcher was a far more consistent advocate of neoliberalism than Reagan ever proved to be. Nor was it the United States that forced China in 1978 to follow the path that has over time brought it closer and closer to the embrace of neoliberalism. It would be hard to attribute the moves toward neoliberalism in India and Sweden in 1992 to the imperial reach of the United States. The uneven geographical development of neoliberalism on the

world stage has been a very complex process entailing multiple determinations and not a little chaos and confusion. So why, then, did the neoliberal turn occur, and what were the forces compelling it onward to the point where it has now become a hegemonic system within global capitalism?

## Why the Neoliberal Turn?

Toward the end of the 1960s, global capitalism was falling into disarray. A significant recession occurred in early 1973—the first since the great slump of the 1930s. The oil embargo and oil price hike that followed later that year in the wake of the Arab-Israeli war exacerbated critical problems. The embedded capitalism of the postwar period, with its heavy emphasis on an uneasy compact between capital and labor brokered by an interventionist state that paid great attention to the social (i.e., welfare programs) and individual wage, was no longer working. The Bretton Woods accord set up to regulate international trade and finance was finally abandoned in favor of floating exchange rates in 1973. That system had delivered high rates of growth in the advanced capitalist countries and generated some spillover benefits—most obviously to Japan but also unevenly across South America and to some other countries of South East Asia—during the “golden age” of capitalism in the 1950s and early 1960s. By the next decade, however, the preexisting arrangements were exhausted and a new alternative was urgently needed to restart the process of capital accumulation.<sup>7</sup> How and why neoliberalism emerged victorious as an answer to that quandary is a complex story. In retrospect, it may seem as if neoliberalism had been inevitable, but at the time no one really knew or understood with any certainty what kind of response would work and how.

The world stumbled toward neoliberalism through a series of gyrations and chaotic motions that eventually converged on the so-called “Washington Consensus” in the 1990s. The uneven geographical development of neoliberalism, and its partial and lopsided application from one country to another, testifies to its tentative character and the complex ways in which political forces, historical traditions, and existing institutional arrangements all shaped why and how the process actually occurred on the ground.

There is, however, one element within this transition that deserves concerted attention. The crisis of capital accumulation of the 1970s affected everyone through the combination of rising unemployment and accelerating inflation. Discontent was widespread, and the conjoining of labor and urban social movements throughout much of the advanced capitalist world augured a socialist alternative to the social compromise between capital and labor that had grounded capital accumulation so successfully in the postwar period. Communist and socialist parties were gaining ground across much of Europe, and even in the United States popular forces were agitating for widespread reforms and state interventions in everything ranging from environmental protection to occupational safety and health and consumer protection from corporate malfeasance. There was, in



this, a clear *political* threat to ruling classes everywhere, both in advanced capitalist countries, like Italy and France, and in many developing countries, like Mexico and Argentina.

Beyond political changes, the *economic* threat to the position of ruling classes was now becoming palpable. One condition of the postwar settlement in almost all countries was to restrain the economic power of the upper classes and for labor to be accorded a much larger share of the economic pie. In the United States, for example, the share of the national income taken by the top 1 percent of earners fell from a prewar high of 16 percent to less than 8 percent by the end of the Second World War and stayed close to that level for nearly three decades. While growth was strong such restraints seemed not to matter, but when growth collapsed in the 1970s, even as real interest rates went negative and dividends and profits shrunk, ruling classes felt threatened. They had to move decisively if they were to protect their power from political and economic annihilation.

The coup d'état in Chile and the military takeover in Argentina, both fomented and led internally by ruling elites with U.S. support, provided one kind of solution. But the Chilean experiment with neoliberalism demonstrated that the benefits of revived capital accumulation were highly skewed. The country and its ruling elites along with foreign investors did well enough while the people in general fared poorly. This has been such a persistent effect of neoliberal policies over time as to be regarded a structural component of the whole project. Dumenil and Levy have gone so far as to argue that neoliberalism was from the very beginning an endeavor to restore class power to the richest strata in the population. They showed how from the mid-1980s onwards, the share of the top 1 percent of income earners in the United States soared rapidly to reach 15 percent by the end of the century. Other data show that the top 0.1 percent of income earners increased their share of the national income from 2 percent in 1978 to more than 6 percent by 1999. Yet another measure shows that the ratio of the median compensation of workers to the salaries of chief executive officers increased from just over thirty to one in 1970 to more than four hundred to one by 2000. Almost certainly, with the Bush administration's tax cuts now taking effect, the concentration of income and of wealth in the upper echelons of society is continuing apace.<sup>8</sup>

And the United States is not alone in this: the top 1 percent of income earners in Britain doubled their share of the national income from 6.5 percent to 13 percent over the past twenty years. When we look further afield, we see extraordinary concentrations of wealth and power within a small oligarchy after the application of neoliberal shock therapy in Russia and a staggering surge in income inequalities and wealth in China as it adopts neoliberal practices. While there are exceptions to this trend—several East and Southeast Asian countries have contained income inequalities within modest bounds, as have France and the Scandinavian countries—the evidence suggests that the neoliberal turn is in some way and to some degree associated with attempts to restore or reconstruct upper-class power.

We can, therefore, examine the history of neoliberalism either as a utopian project providing a theoretical template for the reorganization of international

capitalism or as a political scheme aimed at reestablishing the conditions for capital accumulation and the restoration of class power. In what follows, I shall argue that the last of these objectives has dominated. Neoliberalism has not proven effective at revitalizing global capital accumulation, but it has succeeded in restoring class power. As a consequence, the theoretical utopianism of the neoliberal argument has worked more as a system of justification and legitimization. The principles of neoliberalism are quickly abandoned whenever they conflict with this class project.

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## Toward the Restoration of Class Power

If there were movements to restore class power within global capitalism, then how were they enacted and by whom? The answer to that question in countries such as Chile and Argentina was simple: a swift, brutal, and self-assured military coup backed by the upper classes and the subsequent fierce repression of all solidarities created within the labor and urban social movements that had so threatened their power. Elsewhere, as in Britain and Mexico in 1976, it took the gentle prodding of a not yet fiercely neoliberal International Monetary Fund to push countries toward practices—although by no means policy commitment—to cut back on social expenditures and welfare programs to reestablish fiscal probity. In Britain, of course, Margaret Thatcher later took up the neoliberal cudgel with a vengeance in 1979 and wielded it to great effect, even though she never fully overcame opposition within her own party and could never effectively challenge such centerpieces of the welfare state as the National Health Service. Interestingly, it was only in 2004 that the Labour Government dared to introduce a fee structure into higher education. The process of neoliberalization has been halting, geographically uneven, and heavily influenced by class structures and other social forces moving for or against its central propositions within particular state formations and even within particular sectors, for example, health or education.<sup>9</sup>

It is informative to look more closely at how the process unfolded in the United States, since this case was pivotal as an influence on other and more recent transformations. Various threads of power intertwined to create a transition that culminated in the mid-1990s with the takeover of Congress by the

Republican Party. That feat represented in fact a neoliberal “Contract with America” as a program for domestic action. Before that dramatic denouement, however, many steps were taken, each building upon and reinforcing the other.

To begin with, by 1970 or so, there was a growing sense among the U.S. upper classes that the antibusiness and anti-imperialist climate that had emerged toward the end of the 1960s had gone too far. In a celebrated memo, Lewis Powell (about to be elevated to the Supreme Court by Richard Nixon) urged the American Chamber of Commerce in 1971 to mount a *collective* campaign to demonstrate that what was good for business was good for America. Shortly thereafter, a shadowy but influential Business Round Table was formed that still exists and plays a significant strategic role in Republican Party politics. Corporate political action committees, legalized under the post-Watergate campaign finance laws of 1974, proliferated like wildfire. With their activities protected under the First Amendment as a form of free speech in a 1976 Supreme Court decision, the systematic capture of the Republican Party as a class instrument of *collective* (rather than particular or individual) corporate and financial power began. But the Republican Party needed a popular base, and that proved more problematic to achieve. The incorporation of leaders of the Christian right, depicted as a moral majority, together with the Business Round Table provided the solution to that problem. A large segment of a disaffected, insecure, and largely white working class was persuaded to vote consistently against its own material interests on cultural (antiliberal, antiblack, antifeminist and antigay), nationalist and religious grounds. By the mid-1990s, the Republican Party had lost almost all of its liberal elements and become a homogeneous right-wing machine connecting the financial resources of large corporate capital with a populist base, the Moral Majority, that was particularly strong in the U.S. South.<sup>10</sup>

The second element in the U.S. transition concerned fiscal discipline. The recession of 1973 to 1975 diminished tax revenues at all levels at a time of rising demand for social expenditures. Deficits emerged everywhere as a key problem. Something had to be done about the fiscal crisis of the state; the restoration of monetary discipline was essential. That conviction empowered financial institutions that controlled the lines of credit to government. In 1975, they refused to roll over New York’s debt and forced that city to the edge of bankruptcy. A powerful cabal of bankers joined together with the state to tighten control over the city. This meant curbing the aspirations of municipal unions, layoffs in public employment, wage freezes, cutbacks in social provision (education, public health, and transport services), and the imposition of user fees (tuition was introduced in the CUNY university system for the first time). The bailout entailed the construction of new institutions that had first rights to city tax revenues in order to pay off bond holders: whatever was left went into the city budget for essential services. The final indignity was a requirement that municipal unions invest their pension funds in city bonds. This ensured that unions moderate their demands to avoid the danger of losing their pension funds through city bankruptcy.

Such actions amounted to a coup d’état by financial institutions against the democratically elected government of New York City, and they were every bit as

effective as the military overtaking that had earlier occurred in Chile. Much of the city's social infrastructure was destroyed, and the physical foundations (e.g., the transit system) deteriorated markedly for lack of investment or even maintenance. The management of New York's fiscal crisis paved the way for neoliberal practices both domestically under Ronald Reagan and internationally through the International Monetary Fund throughout the 1980s. It established a principle that, in the event of a conflict between the integrity of financial institutions and bondholders on one hand and the well-being of the citizens on the other, the former would be given preference. It hammered home the view that the role of government was to create a good business climate rather than look to the needs and well-being of the population at large. Fiscal redistributions to benefit the upper classes resulted in the midst of a general fiscal crisis.

Whether all the agents involved in producing this compromise in New York understood it at the time as a tactic for the restoration of upper-class power is an open question. The need to maintain fiscal discipline is a matter of deep concern in its own right and does not have to lead to the restitution of class dominance. It is unlikely, therefore, that Felix Rohatyn, the key merchant banker who brokered the deal between the city, the state, and the financial institutions, had the reinstatement of class power in mind. But this objective probably was very much in the thoughts of the investment bankers. It was almost certainly the aim of then-Secretary of the Treasury William Simon who, having watched the progress of events in Chile with approval, refused to give aid to New York and openly stated that he wanted that city to suffer so badly that no other city in the nation would ever dare take on similar social obligations again.<sup>11</sup>

The third element in the U.S. transition entailed an ideological assault upon the media and upon educational institutions. Independent "think tanks" financed by wealthy individuals and corporate donors proliferated—the Heritage Foundation in the lead—to prepare an ideological onslaught aimed at persuading the public of the commonsense character of neoliberal propositions. A flood of policy papers and proposals and a veritable army of well-paid hired lieutenants trained to promote neoliberal ideas coupled with the corporate acquisition of media channels effectively transformed the discursive climate in the United States by the mid-1980s. The project to "get government off the backs of the people" and to shrink government to the point where it could be "drowned in a bathtub" was loudly proclaimed. With respect to this, the promoters of the new gospel found a ready audience in that wing of the 1968 movement whose goal was greater individual liberty and freedom from state power and the manipulations of monopoly capital. The libertarian argument for neoliberalism proved a powerful force for change. To the degree that capitalism reorganized to both open a space for individual entrepreneurship and switch its efforts to satisfy innumerable niche markets, particularly those defined by sexual liberation, that were spawned out of an increasingly individualized consumerism, so it could match words with deeds.

This carrot of individualized entrepreneurship and consumerism was backed by the big stick wielded by the state and financial institutions against that other

wing of the 1968 movement whose members had sought social justice through collective negotiation and social solidarities. Reagan's destruction of the air traffic controllers (PATCO) in 1980 and Margaret Thatcher's defeat of the British miners in 1984 were crucial moments in the global turn toward neoliberalism. The assault upon institutions, such as trade unions and welfare rights organizations, that sought to protect and further working-class interests was as broad as it was deep. The savage cutbacks in social expenditures and the welfare state, and the passing of all responsibility for their well-being to individuals and their families proceeded apace. But these practices did not and could not stop at national borders. After 1980, the United States, now firmly committed to neoliberalization and clearly backed by Britain, sought, through a mix of leadership, persuasion—the economics departments of U.S. research universities played a major role in training many of the economists from around the world in neoliberal principles—and coercion to export neoliberalization far and wide. The purge of Keynesian economists and their replacement by neoliberal monetarists in the International Monetary Fund in 1982 transformed the U.S.-dominated IMF into a prime agent of neoliberalization through its structural adjustment programs visited upon any state (and there were many in the 1980s and 1990s) that required its help with debt repayments. The Washington Consensus that was forged in the 1990s and the negotiating rules set up under the World Trade Organization in 1998 confirmed the global turn toward neoliberal practices.<sup>12</sup>

The new international compact also depended upon the reanimation and reconfiguration of the U.S. imperial tradition. That tradition had been forged in Central America in the 1920s, as a form of domination without colonies. Independent republics could be kept under the thumb of the United States and effectively act, in the best of cases, as proxies for U.S. interests through the support of strongmen—like Somoza in Nicaragua, the Shah in Iran, and Pinochet in Chile—and a coterie of followers backed by military assistance and financial aid. Covert aid was available to promote the rise to power of such leaders, but by the 1970s it became clear that something else was needed: the opening of markets, of new spaces for investment, and clear fields where financial powers could operate securely. This entailed a much closer integration of the global economy with a well-defined financial architecture. The creation of new institutional practices, such as those set out by the IMF and the WTO, provided convenient vehicles through which financial and market power could be exercised. The model required collaboration among the top capitalist powers and the Group of Seven (G7), bringing Europe and Japan into alignment with the United States to shape the global financial and trading system in ways that effectively forced all other nations to submit. “Rogue nations,” defined as those that failed to conform to these global rules, could then be dealt with by sanctions or coercive and even military force if necessary. In this way, U.S. neoliberal imperialist strategies were articulated through a global network of power relations, one effect of which was to permit the U.S. upper classes to exact financial tribute and command rents from the rest of the world as a means to augment their already hegemonic control.<sup>13</sup>

## Neoliberalism as Creative Destruction

In what ways has neoliberalization resolved the problems of flagging capital accumulation? Its actual record in stimulating economic growth is dismal. Aggregate growth rates stood at 3.5 percent or so in the 1960s and even during the troubled 1970s fell to only 2.4 percent. The subsequent global growth rates of 1.4 percent and 1.1 percent for the 1980s and 1990s, and a rate that barely touches 1 percent since 2000, indicate that neoliberalism has broadly failed to stimulate worldwide growth.<sup>14</sup> Even if we exclude from this calculation the catastrophic effects of the collapse of the Russian and some Central European economies in the wake of the neoliberal shock therapy treatment of the 1990s, global economic performance from the standpoint of restoring the conditions of general capital accumulation has been weak.

Despite their rhetoric about curing sick economies, neither Britain nor the United States achieved high economic performance in the 1980s. That decade belonged to Japan, the East Asian “Tigers,” and West Germany as powerhouses of the global economy. Such countries were very successful, but their radically different institutional arrangements make it difficult to pin their achievements on neoliberalism. The West German Bundesbank had taken a strong monetarist line (consistent with neoliberalism) for more than two decades, a fact suggesting that there is no necessary connection between monetarism per se and the quest to restore class power. In West Germany, the unions remained strong and wage levels stayed relatively high alongside the construction of a progressive welfare state. One of the effects of this combination was to stimulate a high rate of technological innovation that kept West Germany well ahead in the field of international competition. Export-led production moved the country forward as a global leader.

In Japan, independent unions were weak or nonexistent, but state investment in technological and organizational change and the tight relationship between corporations and financial institutions (an arrangement that also proved felicitous in West Germany) generated an astonishing export-led growth performance, very much at the expense of other capitalist economies such as the United Kingdom and the United States. Such growth as there was in the 1980s (and the aggregate rate of growth in the world was lower even than that of the troubled 1970s) did not depend, therefore, on neoliberalization. Many European states therefore resisted neoliberal reforms and increasingly found ways to preserve much of their social democratic heritage while moving, in some cases fairly successfully, toward the West German model. In Asia, the Japanese model implanted under authoritarian systems of governance in South Korea, Taiwan, and Singapore also proved viable and consistent with reasonable equality of distribution. It was only in the 1990s that neoliberalization began to pay off for both the United States and Britain. This happened in the midst of a long-drawn-out period of deflation in Japan and relative stagnation in a newly unified Germany. Up for debate is whether the Japanese recession occurred as a simple result of competitive pressures or whether it was engineered by financial agents in the United States to humble the Japanese economy.

So why, then, in the face of this patchy if not dismal record, have so many been persuaded that neoliberalization is a successful solution? Over and beyond the persistent stream of propaganda emanating from the neoliberal think tanks and suffusing the media, two material reasons stand out. First, neoliberalization has been accompanied by increasing volatility within global capitalism. That success was to materialize somewhere obscured the reality that neoliberalism was generally failing. Periodic episodes of growth interspersed with phases of creative destruction, usually registered as severe financial crises. Argentina was opened up to foreign capital and privatization in the 1990s and for several years was the darling of Wall Street, only to collapse into disaster as international capital withdrew at the end of the decade. Financial collapse and social devastation was quickly followed by a long political crisis. Financial turmoil proliferated all over the developing world, and in some instances, such as Brazil and Mexico, repeated waves of structural adjustment and austerity led to economic paralysis.

On the other hand, neoliberalism has been a huge success from the standpoint of the upper classes. It has either restored class position to ruling elites, as in the United States and Britain, or created conditions for capitalist class formation, as in China, India, Russia, and elsewhere. Even countries that have suffered extensively from neoliberalization have seen the massive reordering of class structures internally. The wave of privatization that came to Mexico with the Salinas de Gortari administration in 1992 spawned unprecedented concentrations of wealth in the hands of a few people (Carlos Slim, for example, who took over the state telephone system and became an instant billionaire).

With the media dominated by upper-class interests, the myth could be propagated that certain sectors failed because they were not competitive enough, thereby setting the stage for even more neoliberal reforms. Increased social inequality was necessary to encourage entrepreneurial risk and innovation, and these, in turn, conferred competitive advantage and stimulated growth. If conditions among the lower classes deteriorated, it was because they failed for personal and cultural reasons to enhance their own human capital through education, the acquisition of a protestant work ethic, and submission to work discipline and flexibility. In short, problems arose because of the lack of competitive strength or because of personal, cultural, and political failings. In a Spencian world, the argument went, only the fittest should and do survive. Systemic problems were masked under a blizzard of ideological pronouncements and a plethora of localized crises.

If the main effect of neoliberalism has been redistributive rather than generative, then ways had to be found to transfer assets and channel wealth and income either from the mass of the population toward the upper classes or from vulnerable to richer countries. I have elsewhere provided an account of these processes under the rubric of *accumulation by dispossession*.<sup>15</sup> By this, I mean the continuation and proliferation of accretion practices that Marx had designated as “primitive” or “original” during the rise of capitalism. These include (1) the commodification and privatization of land and the forceful expulsion of peasant populations (as in Mexico and India in recent times); (2) conversion of various forms of property rights (common, collective, state, etc.) into exclusively private property rights;

(3) suppression of rights to the commons; (4) commodification of labor power and the suppression of alternative (indigenous) forms of production and consumption; (5) colonial, neocolonial, and imperial processes of appropriation of assets (including natural resources); (6) monetization of exchange and taxation, particularly of land; (7) the slave trade (which continues, particularly in the sex industry); and (8) usury, the national debt, and, most devastating of all, the use of the credit system as radical means of primitive accumulation.

The state, with its monopoly of violence and definitions of legality, plays a crucial role in backing and promoting these processes. To this list of mechanisms, we may now add a raft of additional techniques, such as the extraction of rents from patents and intellectual property rights and the diminution or erasure of various forms of communal property rights—such as state pensions, paid vacations, access to education, and health care—won through a generation or more of social democratic struggles. The proposal to privatize all state pension rights (pioneered in Chile under Augusto Pinochet's dictatorship) is, for example, one of the cherished objectives of neoliberals in the United States.

In the cases of China and Russia, it might be reasonable to refer to recent events in "primitive" and "original" terms, but the practices that restored class power to capitalist elites in the United States and elsewhere are best described as an ongoing process of accumulation by dispossession that grew rapidly under neoliberalism. In what follows, I isolate four main elements.

### *1. Privatization*

The corporatization, commodification, and privatization of hitherto public assets have been signal features of the neoliberal project. Its primary aim has been to open up new fields for capital accumulation in domains formerly regarded off-limits to the calculus of profitability. Public utilities of all kinds (water, telecommunications, transportation), social welfare provision (public housing, education, health care, pensions), public institutions (such as universities, research laboratories, prisons), and even warfare (as illustrated by the "army" of private contractors operating alongside the armed forces in Iraq) have all been privatized to some degree throughout the capitalist world.

Intellectual property rights established through the so-called TRIPS (Trade-Related Aspects of Intellectual Property Rights) agreement within the WTO defines genetic materials, seed plasmas, and all manner of other products as private property. Rents for use can then be extracted from populations whose practices had played a crucial role in the development of such genetic materials. Bio-piracy is rampant, and the pillaging of the world's stockpile of genetic resources is well under way to the benefit of a few large pharmaceutical companies. The escalating depletion of the global environmental commons (land, air, water) and proliferating habitat degradations that preclude anything but capital-intensive modes of agricultural production have likewise resulted from the wholesale commodification of nature in all its forms. The commodification (through tourism) of cultural forms, histories, and intellectual creativity entails



wholesale dispossessions (the music industry is notorious for the appropriation and exploitation of grassroots culture and creativity). As in the past, the power of the state is frequently used to force such processes through even against popular will. The rolling back of regulatory frameworks designed to protect labor and the environment from degradation has entailed the loss of rights. The reversion of common property rights won through years of hard class struggle (the right to a state pension, to welfare, to national health care) into the private domain has been one of the most egregious of all policies of dispossession pursued in the name of neoliberal orthodoxy.

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All of these processes amount to the transfer of assets from the public and popular realms to the private and class-privileged domains. Privatization, Arundhati Roy argued with respect to the Indian case, entails “the transfer of productive public assets from the state to private companies. Productive assets include natural resources: earth, forest, water, air. These are the assets that the state holds in trust for the people it represents. . . . To snatch these away and sell them as stock to private companies is a process of barbaric dispossession on a scale that has no parallel in history.”<sup>16</sup>

## 2. *Financialization*

The strong financial wave that set in after 1980 has been marked by its speculative and predatory style. The total daily turnover of financial transactions in international markets that stood at \$2.3 billion in 1983 had risen to \$130 billion by 2001. This \$40 trillion annual turnover in 2001 compares to the estimated \$800 billion that would be required to support international trade and productive investment flows.<sup>17</sup> Deregulation allowed the financial system to become one of the main centers of redistributive activity through speculation, predation, fraud, and thievery. Stock promotions; Ponzi schemes; structured asset destruction through inflation; asset stripping through mergers and acquisitions; and the promotion of debt incumbency that reduced whole populations, even in the advanced capitalist countries, to debt peonage—to say nothing of corporate fraud and dispossession of assets, such as the raiding of pension funds and their decimation

by stock and corporate collapses through credit and stock manipulations—are all features of the capitalist financial system.

The emphasis on stock values, which arose after bringing together the interests of owners and managers of capital through the remuneration of the latter in stock options, led, as we now know, to manipulations in the market that created immense wealth for a few at the expense of the many. The spectacular collapse of Enron was emblematic of a general process that deprived many of their livelihoods and pension rights. Beyond this, we also must look at the speculative raiding carried out by hedge funds and other major instruments of finance capital that formed the real cutting edge of accumulation by dispossession on the global stage, even as they supposedly conferred the positive benefit to the capitalist class of “spreading risks.”

### 3. *The management and manipulation of crises*

Beyond the speculative and often fraudulent froth that characterizes much of neoliberal financial manipulation, there lies a deeper process that entails the springing of the debt trap as a primary means of accumulation by dispossession. Crisis creation, management, and manipulation on the world stage has evolved into the fine art of deliberative redistribution of wealth from poor countries to the rich. By suddenly raising interest rates in 1979, Paul Volcker, then chairman of the U.S. Federal Reserve, raised the proportion of foreign earnings that borrowing countries had to put to debt-interest payments. Forced into bankruptcy, countries like Mexico had to agree to structural adjustment. While proclaiming its role as a noble leader organizing bailouts to keep global capital accumulation stable and on track, the United States could also open the way to pillage the Mexican economy through deployment of its superior financial power under conditions of local crisis. This was what the U.S. Treasury/Wall Street/IMF complex became expert at doing everywhere. Volcker's successor, Alan Greenspan, resorted to similar tactics several times in the 1990s. Debt crises in individual countries, uncommon in the 1960s, became frequent during the 1980s and 1990s. Hardly any developing country remained untouched and in some cases, as in Latin America, such crises were frequent enough to be considered endemic. These debt crises were orchestrated, managed, and controlled both to rationalize the system and to redistribute assets during the 1980s and 1990s. Wade and Veneroso captured the essence of this trend when they wrote of the Asian crisis—provoked initially by the operation of U.S.-based hedge funds—of 1997 and 1998:

Financial crises have always caused transfers of ownership and power to those who keep their own assets intact and who are in a position to create credit, and the Asian crisis is no exception . . . there is no doubt that Western and Japanese corporations are the big winners. . . . The combination of massive devaluations pushed financial liberalization, and IMF-facilitated recovery may even precipitate the biggest peacetime transfer of assets from domestic to foreign owners in the past fifty years anywhere in the world, dwarfing the transfers from domestic to U.S. owners in Latin America in the 1980s or in Mexico after 1994. One recalls the statement attributed to Andrew Mellon: “In a depression assets return to their rightful owners.”<sup>18</sup>

The analogy to the deliberate creation of unemployment to produce a pool of low-wage surplus labor convenient for further accumulation is precise. Valuable assets are thrown out of use and lose their value. They lie fallow and dormant until capitalists possessed of liquidity choose to seize upon them and breathe new life into them. The danger, however, is that crises can spin out of control and become generalized, or that revolts will arise against the system that creates them. One of the prime functions of state interventions and of international institutions is to orchestrate crises and devaluations in ways that permit accumulation by dispossession to occur without sparking a general collapse or popular revolt. The structural adjustment program administered by the Wall Street/Treasury/IMF complex takes care of the first function. It is the job of the comprador neoliberal state apparatus (backed by military assistance from the imperial powers) to ensure that insurrections do not occur in whichever country has been raided. Yet signs of popular revolt have emerged, first with the Zapatista uprising in Mexico in 1994 and later in the generalized discontent that informed antiglobalization movements such as the one that culminated in Seattle in 1999.

#### 4. *State redistributions*

The state, once transformed into a neoliberal set of institutions, becomes a prime agent of redistributive policies, reversing the flow from upper to lower classes that had been implemented during the preceding social democratic era. It does this in the first instance through privatization schemes and cutbacks in government expenditures meant to support the social wage. Even when privatization appears as beneficial to the lower classes, the long-term effects can be negative. At first blush, for example, Thatcher's program for the privatization of social housing in Britain appeared as a gift to the lower classes whose members could now convert from rental to ownership at a relatively low cost, gain control over a valuable asset, and augment their wealth. But once the transfer was accomplished, housing speculation took over particularly in prime central locations, eventually bribing or forcing low-income populations out to the periphery in cities like London and turning erstwhile working-class housing estates into centers of intense gentrification. The loss of affordable housing in central areas produced homelessness for many and extraordinarily long commutes for those who did have low-paying service jobs. The privatization of the *ejidos* (indigenous common property rights in land under the Mexican constitution) in Mexico, which became a central component of the neoliberal program set up during the 1990s, has had analogous effects on the Mexican peasantry, forcing many rural dwellers into the cities in search of employment. The Chinese state has taken a whole series of draconian measures through which assets have been conferred upon a small elite to the detriment of the masses.

The neoliberal state also seeks redistributions through a variety of other means such as revisions in the tax code to benefit returns on investment rather than incomes and wages, promotion of regressive elements in the tax code (such as sales taxes), displacement of state expenditures and free access to all by user fees

(e.g., on higher education), and the provision of a vast array of subsidies and tax breaks to corporations. The welfare programs that now exist in the United States at federal, state, and local levels amount to a vast redirection of public moneys for corporate benefit (directly as in the case of subsidies to agribusiness and indirectly as in the case of the military-industrial sector), in much the same way that the mortgage interest rate tax deduction operates in the United States as a massive subsidy to upper-income home owners and the construction of industry. Heightened surveillance and policing and, in the case of the United States, the incarceration of recalcitrant elements in the population indicate a more sinister role of intense social control. In developing countries, where opposition to neoliberalism and accumulation by dispossession can be stronger, the role of the neoliberal state quickly assumes that of active repression even to the point of low-level warfare against oppositional movements (many of which can now conveniently be designated as terrorist to garner U.S. military assistance and support) such as the Zapatistas in Mexico or landless peasants in Brazil.

In effect, reported Roy, "India's rural economy, which supports seven hundred million people, is being garroted. Farmers who produce too much are in distress, farmers who produce too little are in distress, and landless agricultural laborers are out of work as big estates and farms lay off their workers. They're all flocking to the cities in search of employment."<sup>19</sup> In China, the estimate is that at least half a billion people will have to be absorbed by urbanization over the next ten years if rural mayhem and revolt is to be avoided. What those migrants will do in the cities remains unclear, though the vast physical infrastructural plans now in the works will go some way to absorbing the labor surpluses released by primitive accumulation.

The redistributive tactics of neoliberalism are wide-ranging, sophisticated, frequently masked by ideological gambits, but devastating for the dignity and social well-being of vulnerable populations and territories. The wave of creative destruction neoliberalization has visited across the globe is unparalleled in the history of capitalism. Understandably, it has spawned resistance and a search for viable alternatives.

## Alternatives

Neoliberalism has spawned a swath of oppositional movements both within and outside of its compass, many of which are radically different from the worker-based movements that dominated before 1980. I say many but not all. Traditional worker-based movements are by no means dead even in the advanced capitalist countries where they have been much weakened by the neoliberal onslaught. In South Korea and South Africa, vigorous labor movements arose during the 1980s, and in much of Latin America working-class parties are flourishing. In Indonesia, a putative labor movement of great potential importance is struggling to be heard. The potential for labor unrest in China is immense though unpredictable.

And it is not clear either that the mass of the working class in the United States, which has over this past generation consistently voted against its own material interests for reasons of cultural nationalism, religion, and opposition to multiple social movements, will forever stay locked into such a politics by the machinations of Republicans and Democrats alike. There is no reason to rule out the resurgence of worker-based politics with a strongly antineoliberal agenda in future years.

But struggles against accumulation by dispossession are fomenting quite different lines of social and political struggle. Partly because of the distinctive conditions that give rise to such movements, their political orientation and modes of organization depart markedly from those typical in social democratic politics. The Zapatista rebellion, for example, did not seek to take over state power or accomplish a political revolution. It sought instead a more inclusive politics to work through the whole of civil society in an open and fluid search for alternatives that would consider the specific needs of different social groups and allow them to improve their lot. Organizationally, it tended to avoid avant-gardism and refused to take on the form of a political party. It preferred instead to remain a social movement within the state, attempting to form a political power bloc in which indigenous cultures would be central rather than peripheral. It sought thereby to accomplish something akin to a passive revolution within the territorial logic of state power.

The effect of such movements has been to shift the terrain of political organization away from traditional political parties and labor organizing into a less focused political dynamic of social action across the whole spectrum of civil society. But what they lost in focus they gained in relevance. They drew their strengths from embeddedness in the nitty-gritty of daily life and struggle but in so doing often found it hard to extract themselves from the local and the particular to understand the macro-politics of what neoliberal accumulation by dispossession was and is all about. The variety of such struggles was and is simply stunning. It is hard to even imagine connections between them. They were and are all part of a volatile mix of protest movements that swept the world and increasingly grabbed the headlines during and after the 1980s.<sup>20</sup> Those movements and revolts were sometimes crushed with ferocious violence, for the most part by state powers acting in the name of order and stability. Elsewhere they produced interethnic violence and civil wars as accumulation by dispossession produced intense social and political rivalries in a world dominated by divide and rule tactics on the part of capitalist forces. Client states supported militarily or in some instances with special forces trained by major military powers (led by the United States with Britain and France playing a minor role) took the lead in a system of repressions and liquidations to ruthlessly check activist movements challenging accumulation by dispossession.

The movements themselves have produced an abundance of ideas regarding alternatives. Some seek to de-link wholly or partially from the overwhelming powers of neoliberalism and neoconservatism. Others seek global social and environmental justice by reform or dissolution of powerful institutions such as the

IMF, the WTO, and the World Bank. Still others emphasize a reclaiming of the commons, thereby signaling deep continuities with struggles of long ago as well as with struggles waged throughout the bitter history of colonialism and imperialism. Some envisage a multitude in motion, or a movement within global civil society, to confront the dispersed and de-centered powers of the neoliberal order, while others more modestly look to local experiments with new production and consumption systems animated by different kinds of social relations and ecological practices. There are also those who put their faith in more conventional political party structures with the aim of gaining state power as one step toward global reform of the economic order. Many of these diverse currents now come together at the World Social Forum in an attempt to define their shared mission and build an organizational structure capable of confronting the many variants of neoliberalism and of neoconservatism. There is much here to admire and to inspire.<sup>21</sup>

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But what sorts of conclusions can be derived from an analysis of the sort here constructed? To begin with, the whole history of the social democratic compromise and the subsequent turn to neoliberalism indicates the crucial role played by class struggle in either checking or restoring class power. Though it has been effectively disguised, we have lived through a whole generation of sophisticated class struggle on the part of the upper strata to restore or, as in China and Russia, construct class dominance. This occurred in decades when many progressives were theoretically persuaded that class was a meaningless category and when those institutions from which struggle had hitherto been waged on behalf of the working classes were under fierce assault. The first lesson we must learn, therefore, is that if it looks like class struggle and acts like class struggle, then we have to name it for what it is. The mass of the population has either to resign itself to the historical and geographical trajectory defined by this overwhelming class power or respond to it in class terms.

To put it this way is not to wax nostalgic for some lost golden age when the proletariat was in motion. Nor does it necessarily mean (if it ever should have) that

we can appeal to some simple conception of the proletariat as the primary (let alone exclusive) agent of historical transformation. There is no proletarian field of utopian Marxian fantasy to which we can call. To point to the necessity and inevitability of class struggle is not to say that the way class is constituted is determined or even determinable in advance. Class movements make themselves, though not under conditions of their own choosing. And analysis shows that those conditions are currently bifurcated into movements around expanded reproduction—in which the exploitation of wage labor and conditions defining the social wage are central issues—and movements around accumulation by dispossession—in which everything from classic forms of primitive accumulation through practices destructive of cultures, histories, and environments to the depredations wrought by the contemporary forms of finance capital are the focus of resistance. Finding the organic link between these different class currents is an urgent theoretical and practical task. Analysis also shows that this has to occur in an historical-geographical trajectory of capital accumulation that is based in increasing connectivity across space and time but marked by deepening uneven geographical developments. This unevenness must be understood as something actively produced and sustained by processes of capital accumulation, no matter how important the signs may be of residuals of past configurations set up in the cultural landscape and the social world.

Analysis also points up exploitable contradictions within the neoliberal agenda. The gap between rhetoric (for the benefit of all) and realization (for the benefit of a small ruling class) increases over space and time, and social movements have done much to focus on that gap. The idea that the market is about fair competition is increasingly negated by the facts of extraordinary monopoly, centralization, and internationalization on the part of corporate and financial powers. The startling increase in class and regional inequalities both within states (such as China, Russia, India, Mexico, and in Southern Africa) as well as internationally poses a serious political problem that can no longer be swept under the rug as something transitional on the way to a perfected neoliberal world. The neoliberal emphasis upon individual rights and the increasingly authoritarian use of state power to sustain the system become a flashpoint of contentiousness. The more neoliberalism is recognized as a failed if not disingenuous and utopian project masking the restoration of class power, the more it lays the basis for a resurgence of mass movements voicing egalitarian political demands, seeking economic justice, fair trade, and greater economic security and democratization.

But it is the profoundly antidemocratic nature of neoliberalism that should surely be the main focus of political struggle. Institutions with enormous leverage, like the Federal Reserve, are outside any democratic control. Internationally, the lack of elementary accountability let alone democratic control over institutions such as the IMF, the WTO, and the World Bank, to say nothing of the great private power of financial institutions, makes a mockery of any credible concern about democratization. To bring back demands for democratic governance and for economic, political, and cultural equality and justice is not to suggest some return to a golden past since the meanings in each instance have to be reinvented

to deal with contemporary conditions and potentialities. The meaning of democracy in ancient Athens has little to do with the meanings we must invest it with today in circumstances as diverse as Sao Paulo, Johannesburg, Shanghai, Manila, San Francisco, Leeds, Stockholm, and Lagos. But right across the globe, from China, Brazil, Argentina, Taiwan, and Korea to South Africa, Iran, India, and Egypt, and beyond the struggling nations of Eastern Europe into the heartlands of contemporary capitalism, groups and social movements are rallying to reforms expressive of democratic values. That is a key point of many of the struggles now emerging.

The more clearly oppositional movements recognize that their central objective must be to confront the class power that has been so effectively restored under neoliberalization, the more they will be likely to cohere. Tearing aside the neoliberal mask and exposing its seductive rhetoric, used so aptly to justify and legitimate the restoration of that power, has a significant role to play in contemporary struggles. It took neoliberals many years to set up and accomplish their march through the institutions of contemporary capitalism. We can expect no less of a struggle when pushing in the opposite direction.

## Notes

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