Shift from keynesianism to neoliberalism

How has the paradigmatic shift from Keynesianism to Neoliberalism impacted on modern society?

The shift from Keynesianism to Neoliberalism represented a change from a social democratic mixed economy to a fundamentalist market-first approach. This essay will firstly outline what Neoliberalism means and some of its arguments in opposition to Keynesianism. It will then go on to show how privatisation has been ineffective in achieving Neoliberals' intended aims. Thirdly it will examine the falsities of " trickle down" theory; and finally it will explain the negative effects of Neoliberal globalisation. I conclude that the overall impact of Neoliberalism has been negative.

Neoliberalism as a philosophy is based around the principles of individualism, freedom of choice, market security, laissez faire, and minimal Government. These values provide a theoretical grounding for their challenge to Keynesian welfarism; which sought to achieve an extensive welfare state and full employment. Neoliberals claim that the free market, with minimal government interference, would provide the most efficient and socially optimal allocation of resources. They therefore advocate the privatisation and deregulation of public services as a way of removing inefficiencies through promoting competition. Cuts in public expenditure and taxation also minimise interferences in the market. For this reason they also seek to curb the powers of trade unions and hold down wages. They embrace the inequality these policies inevitably create; the theoretical justification being that higher incomes for the rich and higher profits will lead to more investment, indirectly creating jobs and improving welfare for everyone – this is known as a " trickle down" effect. These values of minimal interference translate on an international level to support for free trade in goods and services, free circulation of capital, and free investment; Neoliberals maintain that globalisation therefore is beneficial to everyone. Keynes on the other hand saw national-level expansion as the route to prosperity (Dumenil and Levy, 2005, p. 24; George, 1999, pp. N/A; Larner, 2000, pp. 5-25; Neale, 2008, p. 125; Robbins cited in Shah, 2009, pp. N/A; Tabb, 1999, pp. 138-143).

Privatisation of public services has not increased efficiency as Neoliberals claimed it would, but has in fact done the opposite. This is because public services tend to be “ natural monopolies”, “ when the minimum size to guarantee maximum economic efficiency [through economies of scale] is equal to the actual size of the market”. This efficiency means the provision of the highest quality service at the lowest cost to the consumer. When such industries are privatised, they remain monopolies, only not ones controlled by accountable governments. The new owners therefore impose high prices on the public while cutting corners on the services provided (George, 1999, pp. N/A). This means also that there has been a massive transfer of wealth from public to private hands. In 1984 public companies contributed 7 billion pounds to the treasury, but now that money is going to the financial institutions and large investors that own the vast majority of the shares in privatised companies (George, 1999, pp. N/A).

Neoliberalism has also been proven wrong in that the trickle down effect has failed to materialise. Thatcher’s break up of the trade unions, which meant workers had less power to bargain for higher wages, alongside her tax reforms, which involved massive tax cuts for the rich, had the desired effect of moving money up the economic ladder (George, 1999, pp. N/A). Yet this did not translate into improved general welfare and higher levels of employment as had been predicted, but in fact to the extension over time of slow growth and unemployment (Dumenil and Levy, 2005, p. 18). This resulted in the number of people living in poverty increasing dramatically, from one person in ten prior to her administration to one in four by the end of the Major years. Similarly in the USA, from the beginning to the end of Reagan's terms in office, the income of the poorest ten percent of Americans decreased by 15% (George, 1999, pp. N/A). This can be explained by Keynes, who counters the idea that lowering wages leads to greater employment by encouraging employers to hire more workers. He contends that although lower wages for a few might have this effect, if this were generalised, it would " reduce the purchasing power of the earners who are also… customers", leading to a lower aggregate demand for goods and services, and thus a fall in the level of production and employment (Keynes cited in Tabb, 1999, p. 143). The transfer of wealth up the economic ladder via any means, to those who already have most of the things they need, does not result in increased local or national consumption and thus growth, but to speculation on international stock markets (George, 1999, pp. N/A).

The freedom of investment and capital movement associated with Neoliberal globalisation, has been disastrous. It has systematically undermined democratic control over economic, as well as other issues. Governments in the modern globalised era rely on attracting Foreign Direct Investment for economic growth, and so in the name of international competitiveness they are forced to abandon their commitments to inclusive welfare systems and full employment, replacing them with an emphasis on economic efficiency. Governments must also abandon other ‘ barriers’ to profitability, which include democratically decided social and environmental regulations. The ever-present threat of capital relocation has led to a “ race to the bottom” in wages and working standards among third world nations, as they desperately attempt to lure investment (Larner, 2000, pp. 5-25; Woodin and Lucas, 2004, pp. 9-48).

In conclusion, this essay has exposed the theoretical underpinnings of Neoliberalism as false by highlighting its effects since its first implementation in the 1980s. The idea that the unfettered market would lead to improved social welfare through “ trickle down” is clearly wrong, as the increased levels of poverty and unemployment clearly demonstrate. Also, the hope that privatisation would improve the efficiency of public services was misplaced, due to their position as natural monopolies. Furthermore, on an international level, Neoliberal policies have stifled democracy. The transition away from Keynesianism therefore has had negative effects overall on society.

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