



## Has Neoliberalism Delivered?

Neoliberalism got its start back in the 1970s, when economic instability created a powerful movement, led by business and, especially, financial interests, to roll back the regulatory power of the state, replacing conscious social control with the “invisible hand” of unregulated markets. Though governments still play a large role in most economies, they have ceded an enormous proportion of their economic power to global markets and private interests. The ideology used to guide and justify this transformation is known as Neoliberalism. Neoliberal enthusiasts promised that this new free market era would dramatically improve economic performance in both developed and developing countries. Unfortunately, these promises have not been kept.

Neoliberalism, as a system of economic thought, indicates complete confidence in the supremacy of free markets as a solution to all types of economic problems. Neoliberal public policies are designed to deregulate and liberalize markets, privatize publicly-owned entities, limit the role of governments, and, in this free market context, increase global economic integration. Neoliberalism is used to guide policy in most international economic institutions, including the [International Monetary Fund](#), the [World Trade Organization](#), and the [World Bank](#).

In the standard Neoliberal view, economies operate best without any government interference or regulation. In an unregulated economy with all out competition, price and profit signals draw resources to their most productive possible uses. Interest rates are neither too high nor too low, and there’s always just the right amount of capital available for firms that want to borrow and invest. Competitive pressures also keep the economy working at its full capacity and employment high. Since markets work

so well, goes the Neoliberal view, economic policy should focus only on making sure prices don’t increase too quickly and lead to inflation.

On a global scale, global financial markets are assumed to allocate financial capital to its most efficient uses. Over time, efficient markets mean that interest rates should decline, world investment should rise, and the flow of funds from the capital rich industrialized countries towards the resource rich developing countries should rise. The most productive investment projects will be funded, no matter where in the world they are located. Since markets allocate resources efficiently, developing country governments are urged to stay out of the business of managing their economies and let the market do its good work. Hence, at the heart of [structural adjustment programs](#) imposed by the IMF and World Bank is the goal of decreasing the size and scope of government, and letting markets bring economies back into line. Even if the process is painful for a citizenry, or greatly exacerbates inequality, by definition markets offer the best deal around in the long run.

The ultimate result, defenders of global Neoliberalism would argue, are all the things good economic systems should deliver: increases in world GDP, productivity, and investment. Financial markets should become more stable. Economic performance in developing countries should improve as capital and technology flows their way, and there should be evidence of a sort of “climb to the top,” as economic conditions in developing countries converge with those in the developed world.

Now that the world has experienced over two decades of Neoliberal policies, what is the evidence? Has Neoliberalism made good on its promises?

### ***Financial Instability***

The Neoliberal era (beginning in the 1980s) has been characterized by the near continuous outbreak of financial crises. One is hard-pressed to think of a part of the world that has not been adversely impacted by one in the past two decades, with the recent crisis in Asia affecting the only developmental success story of the past 50 years. Martin Wolff of the *Financial Times* summed up a late 1998 World Bank report on the Asian financial crisis as follows: “Three crucial lessons can be drawn from the report. It is surprisingly difficult for countries embarking on financial liberalization to avoid disasters. When they succumb, it is no less difficult to escape economic depressions. If short-term capital flows are not tamed, such crises are certain to reoccur.” (*Financial Times*, Dec. 9, 1998)

### ***Interest Rates***

Increased freedom of capital flows has not brought with it lower interest rates, as promised. For the **G7 nations**, for example, **real** long-term interest rates averaged about 2.6% from 1959-1970, and 0.4% from 1971-1982, before Neoliberalism. However, after the advent of Neoliberal policies in the 1980s, real long-term interest rates jumped to 5.6% in the 1982-1989 period, and averaged 4% from 1990-1997. High interest rates have contributed to rising inequality in recent decades because debtors (countries, firms, and people) must pay more for the privilege of borrowing money. Ever larger shares of income are being transferred from workers and nations to the owners of financial assets, typically the richest group in society.

### ***Investment***

Most studies also show a slowdown in capital investment, that part of investment that goes towards creating and maintaining physical capital (versus investments made in paper assets, such as those in the stock market). According to World Bank data, the annual rate of growth of real global investment was 7.0% from 1966 to 1973, falling to 2.2% from 1974 to 1979, rising modestly to 2.8% from 1980 to 1989, and then falling slightly to 2.7% from 1990 through 1996, the last year for which data is available. Investment growth was particularly slow in the developed countries, which had an average annual

growth rate for capital investment of only 1.5% in 1989-95. Clearly, it is in the earliest period, 1966-1973, that investment performed best; this was also a period when the social management of economies was at an all-time high, and is sometimes referred to as the “Golden Age of Capitalism.”

### ***Employment and Productivity***

Within **OECD** countries, unemployment has been on the rise. In 1960-1973, the unemployment rate was only 3.2%, creeping up to 5% in 1973-1979 during the world oil crisis, and remaining pretty steady thereafter at 7.2% in 1979-1989 and 7.1% in 1989-1995. The growth of labor productivity shows an even starker decline during the Neoliberal era. Within **OECD**, it was 4.6% in 1960-1973, declining to 1.8% in 1973-1979, and remaining low at 1.6% during 1979-1997. Recent upsurges in U.S. productivity have been lauded with ushering in its recent expansion, but this part of the historical record is still too limited to qualify as evidence one way or the other.

### ***Economic Growth***

Perhaps the strongest evidence against Neoliberal success is the slowdown in world economic growth. While annual real GDP growth in the world economy averaged 4.9% from 1950 to 1973, when social control of economic policy was at its height, it slowed to 3.0% in 1973-92. Western European growth rates fell from 4.7% in the early period to 2.2% in the latter one. Latin America’s growth averaged 5.3% from 1950-73, but only 2.8% from 1973-92. Africa grew at a 4.4% pace in the first period, but at a 2.8% rate in the second one. Asia, the last bastion of state-led development, was also the only major area not to experience a significant slowdown, maintaining growth between 5% and 6% for the entire era.

The same results follow if we focus on the decade of the 1990s. World GDP growth averaged but 2.5% from 1991-98, after the Neoliberal regime had been firmly established — by far the slowest growth rate of the post war era. The growth rate of world **real per capita GDP** growth was just as disappointing, averaging only 1.0% per year in the 1990s, less than one third its pace in earlier decades. Most of this growth was in Asia.

Developed nations had an average GDP growth rate of only 2% from 1990 through 1998. Latin America growth averaged 3.4% from 1990-98, better than in the “lost decade” of the 1980s, but much lower than in the Golden Age. Africa showed GDP growth of only 2.2% a year from 1990-98. By way of contrast, the state-led economies of East Asia

*the ascendancy of neoliberalism*



**The Performance of Neoliberalism Compared to Earlier Decades**

	<b>1959-70</b>	<b>1971-82</b>	<b>1982-89</b>	<b>1990-97</b>
<b>G7 Real Interest Rates</b>	2.6%	0.4%	5.6%	4.0%
	<b>1966-73</b>	<b>1974-79</b>	<b>1980-89</b>	<b>1990-96</b>
<b>Real global investment growth</b>	7.0%	2.2%	2.8%	2.7%
	<b>1960-73</b>	<b>1973-79</b>		<b>1979-97</b>
<b>OECD productivity</b>	4.6%	1.8%		1.6%
	<b>1950-73</b>		<b>1973-92</b>	<b>1991-98</b>
<b>World GDP growth</b>	4.9%		3.0%	2.5%

Source: See text and sources below.

grew by 6.7% from 1990-97, prior to the outbreak of financial crisis in that region.

**Global Inequality**

The world is not getting more equal. In most low income countries, spending on private consumption declined by about 1% every year for the past 15 years, while the world average has grown by 3%. And the income gap between the fifth of the world’s population in wealthiest countries and the poorest fifth of the world’s population was thirty to one in 1960, sixty to one in 1990, and seventy-four to one in 1997.

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