CHAPTER III
DISCOURSE ON NEOLIBERALISM

Neoliberalism over the last few decades has emerged as a powerful contemporary global force influencing the lives of billions, everywhere. It has successfully laid the foundation of the market-based ideology. Under its influence, the market has become dominant in almost all the spheres. The impact upon the state and lives of the people could be one major manifestation. Furthermore, its impact can also be seen in diverse areas such as economy, society, polity, security, culture, environment and international relations. Within a short span, it has reached far and wide, become influential and deeply intermingled with critically important aspect of life where, its assessment becomes an essential part of any intellectual exercise.¹

In the globalisation era, it is apparent that many states are left with less space and few choices over many pertinent issues. On the darker side, states are faced with diverse issues and challenges which are extremely complex. Many states are also found to be ill-equipped and unable to tackle these varied problems. The emergence of these new forces has further intensified their complexities. Therefore, the solution becomes extremely difficult. Within the states, there has developed a growing expectation for provision of welfare and security of its larger populace. Instead of addressing, the state inability to perform or either withdrawal from many of its core functions has ultimately, led to discontentment. These developments have led some parts of the state experiencing a serious uprising to the extent of challenging and undermining the authority of the state. Therefore, the discourse on neoliberalism becomes extremely significant to understand how it is connected to the problem of our present time.

As for the states, there is no other alternative today, but to adopt these policies rigorously. While, it is apparent that the developed states seem to have less of a problem in associating with these new forces as their environment is conducive, but this is not compatible, especially for those of the weak Third World states. Therefore, it is pertinent to raise questions such as why this ideology emerged and how this ideology has successfully disseminated its policy across the world. How this ideology has uplifted few but let down the majority leading to the mass resistance against this ideology? Also how the issues of development, legitimacy and monopoly of violence is crucial and debatable while addressing neoliberalism.

1. Neoliberalism: Definition and Meaning

The word ‘Neoliberalism’ was coined in the 1930s by the German economist, Alexander Rustow to describe the advance of “new” and revitalised liberal ideas that were hostile to the kind of state intervention and collectivism, widely dominant in the first part of the 20th Century. According to Webster international dictionary, ‘neoliberalism’ is a movement or doctrine that attempts to modify the principles of classical liberalism in the light of 20th century conditions. Political and social science encyclopaedias, define neoliberalism as an ideology and policy model that emphasises the value of free market competition. The central pillars of neoliberalism are therefore, market and the individual.

David Harvey defined neoliberalism as, “a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual

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3 Webster’s Third New International Dictionary (Cologne: Konemann, 1993).
4 Political Science and Social Science Encyclopedia.
entrepreneurial freedoms and skills within an institutional framework characterised by strong private property rights, free markets, and free trade."\(^6\) For Gerald Dumenil and Dominique Levy, “neoliberalism is the ideology of the markets and private interests as opposed to state intervention.”\(^7\)

For Noam Chomsky, neoliberalism is, “the policies and processes whereby a relative handful of private interests are permitted to control as much as possible of social life in order to maximise their personal profit.”\(^8\) While Graham Harrison defines it as, “the fundamental political good is the freedom of the individual, which is best secured through a competitive market society, which in turn is only possible in states that do not interfere in the economy beyond that which is strictly necessary to ensure the second condition. Therefore, in short, terms such as laissez-faire, marketisation, or rolling back the state.”\(^9\)

The above definitions shows neoliberalism primarily revolves around the idea of free market, individualism, private property, free trade, profits, and state minimal role. Thus, neoliberalism is an extension of liberalism with a fusion of neoclassical economic theory with neoclassical liberal political thought.\(^10\)

dominated the period from 1945 to the early 1980s. Here, it is often linked to the ‘Washington Consensus’\textsuperscript{11} and to the Structural Adjustment Programmes (SAP) of the IMF and the World Bank. More recently, it has been raised by anti-globalisation movements to characterise the economic ideology behind capitalist globalisation.\textsuperscript{12}

Second, the term ‘neoliberalism’ is also used within academic international relations. Here, it is often described as neoliberal institutionalism or regime theory developed in the mid-1980s as a reaction to the neorealist paradigm. Neoliberal institutionalism sought to demonstrate that international cooperation is possible, even on realist premises namely states are rational, unitary actors which seek to maximise their utility in an anarchic international system.\textsuperscript{13} The neoliberals stressed upon more attention towards economic and environmental interdependence as well as changes in governmental functions, information and international regimes.\textsuperscript{14} Though recognising the absence of a sovereign authority at the international system which creates opportunities for conflict, defection, and cheating, neoliberals argue that institutions and regimes help states cooperate by reducing uncertainty, monitoring behaviour, and enhancing the importance

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\item[\textsuperscript{12}] Washington Consensus is a set of policies to offer a formula for promoting economic growth in Latin America in the late 1980s. It was first presented by the economist John Williamson from the Institute for International Economics in 1989 and consists of ten major areas of national economic reform. These are: fiscal policy discipline; the redirection of public spending towards education, health and infrastructure; tax reform which flattens the tax curve to reduce the burden on high tax brackets and increase it on lower brackets; the market determination of interest rates; competitive exchange rates; trade liberalisation; openness to FDI; privatisation of state enterprises; deregulation to encourage competition; and legal security for property rights. Andrew Jones, \textit{Dictionary of Globalisation} (Massachusetts: Polity Press, 2006), p. 29.
\end{itemize}
of status quo.\textsuperscript{15} Therefore, neoliberalism stressed upon states to adapt themselves to the changing international norms and regulation through cooperation for absolute gain.\textsuperscript{16}

Neoliberal ideas present universal legitimacy to a conception of freedom based on private power. It attacks the public realms and associated ideas of collectivity and society. These norms have been shared and adopted by some of the powerful public institutions such as the International Monetary Fund (IMF), the World Bank, other multilateral development banks, the World Trade Organisation (WTO) and the majority of governments across the globe. This has provided an important legitimisation for the private business groups and Transnational Corporations (TNCs), whose vision and behaviour in most cases are underpinned by these norms. The neoliberal ideology thus, comes to be endorsed around the globe as the proper approach to development. Neoliberalism is in favour of global economic integration and presents as best, the most natural and the universal path towards economic growth and, therefore, toward development for all humanity.\textsuperscript{17} In essence, neoliberalism makes an argument that economic growth will be most rapid when the movement of goods, service, and capital is unimpeded by government regulation.\textsuperscript{18}

The function of the state under neoliberalism is to create and preserve an institutional framework appropriate to such practices. The state should guarantee the

quality and integrity of money and set up those military, defence, police, and legal structures and functions required to secure private property rights and to guarantee, by force if required, the proper functioning of markets. Besides, if markets do not exist in a state (in areas such as land, water, education, health care, social security, or environmental pollutions) then they must be created, through state action if needed. But beyond these responsibilities, the state should not venture. Thus, according neoliberalism, state interventions in market must be kept to a bare minimum since, the state cannot possibly possess enough information to second-guess market signals (prices) and as influential interest groups will inevitably distort and bias state interventions (particularly in democracies) for their own benefit.19 Furthermore, neoliberalism is also used to understand diverse areas such as institutions and security.

Neoliberals emphasised the crucial role of international institutions in mitigating conflict. For instance, scholars like Robert Keohane and Robert Axelrod played a central role in defining this field by pointing the abilities of international institutions such as the United Nations in redefining state roles and act as arbitrators in state disputes. These scholars held that though institutions cannot absolve anarchy, they can change the character of the international environment by influencing state preferences and state behaviour. International institutions does this through various methods that either create strong incentives for cooperation such as favourable trade prospects, or through powerful disincentives like trade sanctions.20

Neoliberals assert that institutions are essential because they modify the actions of decision makers both directly by altering the costs and benefits of actions and indirectly by modifying goals of the institutions and patterns of cooperation that characterise human affairs. These include the costliness of information, the costs of measuring the valuable attributes of what is being exchanged and the costs of protecting rights and policing and enforcing agreements. Despite the constraints they impose on states, institutions are desirable because it reduces transaction costs associated with rule-making, negotiating, implementing, enforcing, information gathering and conflict resolution. Moreover, they are also durable. Thus, international actors should promote institutionalisation as a means of promoting the collective interests for international stability. Apart from the need of institution-building, neoliberals also focussed on regime creation and the search for ‘absolute’ rather than ‘relative’ gains. For them, though nation-states continues to be important actors, they have declined their ability to affect outcomes, particularly on the plethora of issues that transcend political boundaries. Instead of single actors, neoliberals favour a mixed range of actors which includes international organisations, TNCs, Non-Governmental Organisations (NGOs), Multi-National Corporations (MNCs) and other non-state players.

23 Neoliberals effectively challenge the neorealist claims over cooperation which is difficult to achieve and sustain and institutions matters little. It holds that anarchy permits a variety of interactions among states and a higher degree of cooperation is possible under anarchy than neorealist would acknowledge. Where and when mutual interests exists (in situations where potential gains can be derived from coordination and collaboration), states will engage in cooperation. Relative gains are important, but only when “gains in one period alter power relations in another, and where there is some likelihood that subsequent advantage in power may be used against oneself.” Graham Evans and Jeffrey Newnham, The Penguin Dictionary of International Relations (London: Penguin Books, 1998), p. 362. Also see Robert O. Keohane, After Hegemony: Cooperation and Discord in the World Political Economy (New York: Princeton, 1984), p. 275.
On the question of how suitable is neoliberal institutionalism in security issues, Robert Jervis asserts that the realm of security has special characteristics, at the same time makes regime creation more difficult and increases the need for security regimes, with their call for mutual restraint and limitations on unilateral actions that rarely seem attractive to decision-makers under the security dilemma. The basic to the neoliberals is the idea of common interests where states could achieve together but if antagonists do not share common interests in that case Jervis says, “states will establish an institution if and only if, they seek the goals that the institution will help them accomplish. It does not seem, superficially that institutions could do much to increase security.”

The perception that security might lie outside the scope of neoliberal cooperation has led neoliberal institutionalists to focus on cooperation in low politics such as economy, society and environment and pay much less attention to military security cooperation. But the persistence and expansion of NATO after the Cold War created a theoretical puzzle for realists and an opportunity for neoliberal institutionalism to move into high politics. In this connection, Celeste A. Wallander and Keohane explicitly regard NATO as a security institution and try to theorise the conception of security institution. First, due to transaction cost and uncertainty, it is easier to maintain than to create new institutions, which is a basic assumption argued by Keohane in ‘After Hegemony’. Second, the duration of an institution mainly relies on the function and extent of institutionalisation and organisation. Third, and most importantly, the conditions and objects for a security institutions’ persistence are not as narrow as those of alliances. An alliance is for dealing

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25 Ibid., p. 42.
with common threats while an institution is for coping with risks, including regional uncertainty. David A. Lake distinguishes hierarchic institutions from anarchic ones. He argues that the former are affective in taking action but can vanish while the latter, lacking dominant authorities are less effective but more adaptable to a changing environment and can last. In short, Lake, Keohane and Wallander argue that NATO persisted because it was not a simple alliance rather it was becoming a security institution. Therefore, for neoliberals, the prospect for international cooperation is more likely in economic areas than in those concerning military security. Since the economy is fundamental and a determining factor towards progress, it stressed upon states to associate with these new forces, so that it can benefit through such kind of policies.

2. Origin of Neoliberalism as an Ideology

Neoliberalism as a thought can be traced back to the writings of Rustow during the 1930s and later on, developed by free-market economist Friedrich von Hayek during the Second World War period and its popularisation by Milton Friedman in the 1970s.

During the 1930s, the world had witnessed high unemployment and widespread poverty especially, in the Western countries as a result of economic crises commonly

26 Ibid.
28 Neoliberalism came out from the ‘Conference of Intellectuals’ (Colloque Walter Lipmann) organised in Paris on August 1938 by French Philosopher Louis Rougier. It was generally in line with Rustow’s theories of turning away from conceptions of laissez-faire towards a market economy under the guidance and the rules of a strong state. It was an attempt to formulate an anti-capitalist, anti-communist Third Way. Neoliberalism was originally established as something quite different from the free-market radicalism with which it is usually associated today. For such discussion see Oliver Marc Hartwich, Neoliberalism: The Genesis of a Political Swearword, Centre for Independent Studies (CIS), Occasional Paper no.114, St Leonards, North South Wales, 21 May 2009, pp. 1-28.
referred to as ‘the Great Depression’. This economic crisis was perceived as a failure of economic liberalism which resulted in widespread anti-liberal sentiments. This development was considered by the liberals, a serious setback to their ideology. Therefore, in order to redefine liberalism, a group of liberals held an academic international conference under Walter Lippmann in Paris on August 1938, consisting of intellectuals such as Lippmann, Louis Rougier, Friedrich Von Hayek, Wilhelm Ropke, Ludwig Von Mises, and Alexander Rustow. Unlike Hayek and Mises, the other group of scholars Rustow, Lippmann and Rougier accepted that the classical liberalism of laissez faire had failed and thus emphasised for a new liberalism. Despite their disagreement, at the end of the conference, all the participants united in their call for a new liberal project by following Rustow’s original recommendation, which they called the project known as ‘neoliberalism’.  

One most prominent intellectual predecessor of neoliberalism came from classical economics associated with the Scottish enlightenment philosopher, Adam Smith. Smith’s Wealth of Nations (1776) is regarded by neoliberals as setting out the founding principles of the liberal market economy. Smith’s metaphor of the “invisible hand” of the market is

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30 They had agreed upon to turn the ‘Colloque Walter Lipmann’ into a permanent think-tank called Centre International d’Etudes pour la Renovation du Liberalisme. But at the conference, the fundamental differences between ‘true (third way) neoliberals’ around Rustow and Lippmann on the one hand and old school liberals around Mises and Hayek on the other were already quite visible. While the ‘true neoliberals’ demanded state intervention to correct undesirable market structures, Mises had always insisted that the only legitimate role for the state was to abolish barriers to market entry. Similar differences of opinion also existed in other questions such as social policy and the scope for interventionism. After a few years the insurmountable differences between old liberals and the neoliberals become unbearable. Rustow was bitter that Mises still adhered to a version of liberalism that Rustow thought had failed spectacularly. In a letter Rustow wrote that Hayek and his master Mises deserved to be put in spirits and placed in a museum as one of the last surviving specimen of an otherwise extinct species of liberals which caused the current catastrophe (the Great Depression). Mises became equally critical of the German neoliberals. He complained that Ordoliberalism really meant ‘ordo-interventionism’. Hartwich, Op.cit., pp. 1-28.
treated as a general claim that social well-being is maximised unintentionally but efficiently by agents in free markets. Wealth is therefore created through a process of market competition rather than by central governmental direction. Smith’s work represented one of the first attempts to develop an understanding of the principles of self-regulating markets, and as a result it still inspires much neoliberal theorising on market today.\textsuperscript{31}

Another influential advocate of neoliberal ideas was Hayek. The strong anti-socialist views of his intellectual mentor Mises greatly inspired Hayek. Hayek’s most celebrated writing \textit{The Road to Serfdom} (1944) warned of the political dangers inherent in socialism and suggested that all forms of collectivism - even mild variants such as social democracy - led inexorably toward the kind of National Socialism practiced in Germany under the Third Reich.\textsuperscript{32} Hayek maintained that individual freedoms and progress could be guaranteed only by participating in a market society. He saw the market as a spontaneous order that had naturally evolved without conscious human design. What made the spontaneous market order (as Hayek termed it) superior was that unlike the modern state, it was capable of coordinating the knowledge of private individuals in society, enabling them to pursue their own short-term objectives.\textsuperscript{33}

The most significant event in the intellectual development of neoliberalism was the formation of the Mont Pelerin Society (MPS) in 1947. This organisation represented a

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\item\textsuperscript{31} Scholte and Robertson, Op.cit., p. 865.
\item\textsuperscript{32} Ibid.
\item\textsuperscript{33} For Hayek, the target was always what was seen as an ‘excessive’ or ‘bloated’ state actor, its intrusion into and attempts at regulation of the ‘free’ market and ultimately, the erosion of freedom this represented from individuals. The states intervention in the economy would lead to an unbridled ‘collectivism’. Thus unregulated market capitalism will deliver efficiency, growth and widespread prosperity. Ibid. Ronaldo Munck, “Neoliberalism and Politics of Neoliberalism,” in Saad-Fiho and Johnson (eds.), Op.cit., p. 60.
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reaction to the decline in the 20th century of classical liberal values of free trade and limited government and the dominance of collectivist ideologies embracing the principles of community and the rational planning and design of institutions. Neoliberals were not just opposing the rise of socialism in national economies, they were responding to the “new” interventionist variants within liberalism itself, such as the New Liberalism advocated by T.H. Green, L.T. Hobhouse, and J.A. Hobson in Britain, and the liberal progressivism associated with Franklin Roosevelt’s *New Deal Administration* in the United States.\(^{34}\)

The MPS was an international forum established to discuss the intellectual revival of liberalism organised by Hayek. It brought together compatible scholars and intellectuals such as Lionel Robbins and Karl Popper from the London School of Economics, the German liberal economist Wilhelm Ropke, and Milton Friedman from the University of Chicago. The principal aim of the society were to correct what its members viewed as intellectual errors of history associated with socialist economic planning and to turn free market neoliberalism into a global economic creed. Thus, the MPS laid the foundation of neoliberalism as a global ideology. Some critics have commented that like the Marxists of an earlier time, the neoliberals at Mont Pelerin constructed their own universalist utopia.\(^{35}\)

As the founding statement of the MPS read as follows:

\(^{34}\) In 1947, Friedrich Hayek founded the Mont Pelerin Society (MPS) to bring together the widely scattered neoliberal thinkers and political figures such as Ludvig von Mises, Milton Friedman and Karl Popper. The MPS was considered an international organisation composed of economists (including eight winners of the Nobel Memorial Prize in Economic Sciences), philosophers, historians, intellectuals, business leaders, and others committed to their understanding of personal and political freedom. Its founding member include Friedrich Hayek, Karl Popper, Ludwig von Mises, George Stigler, and Milton Friedman. The society advocates freedom of expression, free market economic policies, and the political values of an open society. Scholte and Robertson, Op.cit., p. 865. Also see Heywood, *Politics*, Op.cit., pp. 49-50; Hartwich, Op.cit., pp. 1-28.

\(^{35}\) Ibid.
The central values of civilisation 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 of current tendencies of policy. The position of the individual and the voluntary group are progressively undermined by extensions of arbitrary power. Even the 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 questions 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.\(^{36}\)

Some consider the present form of neoliberalism as a more practical version centred on a programme of micro-economic stabilisation, liberalisation of trade and privatisation. While for others, neoliberalism means the Washington Consensus to distance themselves from the particular neoliberal theories developed by Hayek. However, in practice, existing neoliberalism has not simply acted to ‘roll back’ the state or to remove the market from the realm of regulation.\(^{37}\)

3. Turning Neoliberal Ideology into Policy

Neoliberalism in the post-Second World War became ‘embedded\(^{38}\) in national economic programmes. In Germany in the 1950s, neoliberal ideas influenced the policy proposal of

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\(^{38}\) For Western societies the decade after 1945 was a time of unprecedented economic growth, its benefits distributed relatively equitably, and of politically stable democracy, except for a handful of southern European countries. The period is often identified with the welfare state or the Keynesian consensus. John Ruggie has coined the term ‘embedded liberalism.’ Embedded liberalism delivered high rates of growth in the advanced capitalist countries during the 1950s and 1960s. James L. Richardson, Contending Liberalism in World Politics: Ideology and Power (London: Lynne Rienner Publisher, 2001), pp. 41-2. Also see Harvey, Op.cit., pp. 11-2.
the early social market economy, which extolled the virtues of free competition, open markets, price stability, and the rule of law or legal state. While in Britain and the United states, the political triumph of the ‘New Right’\textsuperscript{39} during the late 1970s and 1980s was achieved at the expense of Keynesianism, the first coherent philosophy. According to this approach, the state intervened in the economy to smooth out the business cycle, provide a degree of social equity and security and maintain full employment. As against this idea, the neoliberals favoured the free play of ‘market forces’ and a minimal role of the state in economic life, wanted to ‘roll back’ the welfare state, in the process challenging the socio-democratic consensus established in most Western states during the post-war period.\textsuperscript{40}

Ultimately, triumph of neoliberalism has been witnessed with the defeat of both development economies and developing countries strategy of import-substitution that had been intellectually supported by development theory. “Classical economics” as called by John Maynard Keynes (prominence in the 1930s in response to the Great Depression) was mainly emphasised on full employment equilibrium. This classical economic model was composed of flexible prices and wages that could easily adjust to change in demand and thereby restore full-employment equilibrium. In this economic world, the market did all the work and there was little that state could or should do. On the other hand, Keynes pointed out that there were situations characterised by market failures (as in the Great Depression) where equilibrium could not be restored by the free play of market forces and the government therefore had to intervene with demand management policies.

\textsuperscript{39} The term ‘New Right’ is an ideological trend within conservatism that embraces a blend of market individualism and social authoritarianism. The New Right proclaimed the need to ‘roll back the frontier of the state’. From their perspective, the state’s economic role should be confined to two functions: the maintenance of a stable means of exchange or sound money (low or zero inflation) and the promotion of competition through controls on monopoly power, price fixing and so on. See Heywood, Op.cit., p. 96.

(macroeconomic policies) that would re-establish a full employment equilibrium. Such departures from full-employment equilibrium were produced by economic behaviour fundamentally different from that predicted by classical economists and that thus necessitated state intervention in the economy in order to overcome market failures. Thus, Keynesianism not only created a rational for government intervention, but implied that classical economics was not applicable to every economy and economic situation. In this way, Keynesianism supported the fundamental assumption of development economics in which less developed economies were different from developed economies, and therefore the state should play a central role.\textsuperscript{41} Thus, the main opposition to Keynesianism came eventually from internal movements for ‘reform’ started by neoliberals.\textsuperscript{42}

For many observers, the reasons for the redefinition of liberalism in the middle of the twentieth century was the perceived overstretch of the modern welfare and the growing disillusionment with the republican model of centralised government. Friedman addressed the problem of this approach in his book \textit{Capitalism and Freedom} (1962). His work not only provided a major impetus to the formulation of neoliberalism, but also had a direct influence on US policy through his role as one of President Ronald Reagan’s economic advisors.\textsuperscript{43}

In Britain and US in the 1970s, the rise of neoliberalism was associated with the failure of Keynesian economic management and the onset of stagflation (an inflationary economic situation coupled with a decline in industrial output). Friedman led the attack on

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Keynesianism, applying a radical free-market ideological stance to a range of public policies. His theory of monetarism rejected the Keynesian “trade-off” between inflation and employment, in claiming inflation as a monetary phenomenon which only could be controlled by limiting the money supply through fixed rule. Like his predecessor Hayek, Friedman had a vision of a global market society. Taking inspiration from Hong Kong, he envisioned a global economy free from price-fixing and arbitrary intervention, with no restraints on international trade and no government direction of economic transaction.\textsuperscript{44}

To support the idea, Friedman make a strong assertion that “millions of able, active and vigorous people exist in every underdeveloped country and require only favourable environment to transform the face of their countries, neoliberal policies aimed at creating a more competitive market with brave, more innovative entrepreneurs took over a previously liberal, interventionist development economies in the “counter-revolution” of the 1970s and early 1980s.”\textsuperscript{45} By the mid 1980s, neoliberal economics thus, came to dominate a previously social democratic and Keynesian development discourse. Taking ideas from Hayek and Friedman, Augusto Pinochet, Margaret Thatcher and Ronald Reagan used a strong state to ‘roll back’ state interference and consolidate free market mechanism. The labour market was deregulated and made more flexible. Management’s ‘right to manage’ was restored and the market was protected from political constraints.\textsuperscript{46}

The first phase of global neoliberalism began with the Pinochet military coup in Chile in 1973. After ousting General Gustavo Leigh in 1975, Pinochet brought a group of Chilean economists trained at the University of Chicago called the ‘Chicago Boys’ into

\textsuperscript{44} Ibid. Also see Munck, “Neoliberalism and Politics of Neoliberalism,” in Saad-Fiho and Johnson (eds.), p. 60.
the government, where their first job was to negotiate loans with the IMF. Working alongside the IMF, they restructured the economy according to their theories. They reversed the nationalisation policy and privatised public assets, opened up natural resources (fisheries, timber, etc) to private and unregulated exploitation (in many cases riding roughshod over the claims of indigenous inhabitants), privatised social security, and facilitated foreign direct investment and free trade. Moreover, the right of foreign companies to repatriate profits from their Chilean operations was guaranteed and export-led growth was favoured over import substitution. The only sector reserved for the state was the key resource of copper (rather like oil in Iraq). This proved crucial to the budgetary viability of the state since copper revenues flowed exclusively into its coffers. The immediate revival of the Chilean economy in terms of growth rate, capital accumulation, and high rates of return of foreign investments was short-lived. It all went appalling in the Latin American debt crises of 1982.47

In 1980s, the governments of Thatcher and Reagan established the credibility of neoliberalism both as an ideology and a political programme. Together with conservatism, neoliberalism became an important ideological component of the New Right. Free-market think-tanks such as the Institute of Economic Affairs in Britain and the Hoover Institute in the United States were influential not only in disseminating the neoliberal ideas of Hayek and Friedman, but also in turning them into practical policy proposal. Neoliberalism in

47 The so-called ‘Chicago boys’ were summoned to help reconstruct the Chilean economy. As part of a Cold War programme to counter left-wing tendencies in Latin America, the United States had funded training of Chilean economists at the University of Chicago since the 1950s. Chicago-trained economists came to dominate at the private Catholic University in Santiago. During the early 1970s, business elites organised their opposition to Salvador Allende through a group called ‘the Monday Club’ and developed a working relationship with these economists, funding their work through research. Harvey, Op.cit., p. 8.
Britain and America emphasised the need for two institutions: the free market economy and the strong state. This entailed the introduction of policy prescriptions that were compatible with free-market principles such as monetarism, privatisation, deregulation, and the curbing of trade-union power, over-seen by strong, but minimal state capable of correcting market failures and maintaining law and order.\textsuperscript{48} Thatcher and Reagan in these aspects shared many striking similarities as both emphasised on reducing inefficient government regulation within the mainstream.

Reagan after assuming office in 1981, planned for cutting high inflation and creating new jobs. In the early year of his office, the plan to cut inflation through cuts in government spending on social welfare programmes as well as through Federal Reserve Board’s tight monetary policy turned out to be more successful than creating new jobs through a “trickle down” effect. The Reagan administration also believed that federal involvement in state and local government affairs as well as private market affairs was more likely to exacerbate problems than contribute to their solution. According to Daniel Yergin and Joseph Stanislaw, this new federalism not only moved greater policy-setting and financial responsibility to the state and local governments but also produced a large-scale deregulation effort, which together with the “Thatcherite Revolution” stood as a model for deregulation and privatisation effort world-wide.\textsuperscript{49}

Consequently, Reagan and Thatcher revolutions played a significant role in defining the neoliberal era as the actual policies that they pursued especially their strong endorsement of deregulation. What Reagan did was sell the political idea of a return to the

free market to the general populace, in the process popularising neoliberalism. This popularisation of neoliberalism explains how aspects of neoconservative politics came to be seen as part of the neoliberal agenda.\textsuperscript{50} Furthermore, the domination of neoliberal economic policies was extended to the global institutions.

Earlier, the IMF and World Bank used neoclassical economics as the theoretical basis for policy formation. The IMF in mid-1970s and the World Bank in late 1970s, the controlling faction of economic belief shifted to the right under the combined impetus of two factors: (a) A change in the discipline of economics away from Keynesianism and towards a neoclassicism influenced by the Austrian School’s belief in markets as opposed to state regulations, and by the monetarist theories of Friedman and, (b) The right-wing in political opinion at the end of the ‘long decades of the sixties’ (that is, stretching well into the 1970s) marked by the elections of Thatcher and Reagan.\textsuperscript{51} Hayek’s ideas greatly influenced Thatcher which made her to proclaim that Hayekian ideas were what a right-wing Conservative Party should believe in. While in US, the appointment of dedicated right-wing ideologues to the high posts in the US Treasury Department forced Hayekian principles on the Fund and the Bank on threat of withdrawal of US funding. As Reagan said to the annual meeting of World Bank in 1983:

\textsuperscript{50} Ibid., p. 33.

\textsuperscript{51} Peet, Op.cit., p. 13. The Austrian School of Economic Thought can best be explained as a total laissez faire approach to business. It says that the economy can best be explained through the use of human action as in a free market, interest rates and profits are determined by these factors: monetary gain or losses from a change in consumption of good or service, additional output that can be produced by additional inputs, and the valuation of consumption nearer in time versus more remote consumption. It also purports that human decision making affects the free market and not economic models or statistical methods. There can be no compromise between these factors. It relies on microeconomics to evaluate macroeconomics in general, as in if a bad investment is attained, its because of bad decisions of one party in that decision process, rather than looking at the economy as a whole. Richard Paul, “Keynesian, Austrian, and Neoclassical Economics,” 24 September, 2012, http://www.liberalbeef.com/2012/09/24/Keynesian.austrian-and-neoclassical-economics/&sa (Accessed March 13, 2014.)
The society that achieved the most spectacular, broad based economic progress in the shortest period of time has not been the biggest in size, nor the richest in resource and certainly not the most rigidly controlled. What has united them all was their belief in the magic of the marketplace. Millions of individuals making their own decisions in the marketplace will always allocate resources better than any centralised government planning process.52

This is a statement drawing intellectual power directly from Hayek, the Austrian School and Friedman. And this was a statement warning the Bank to move against state-led development. Under the control of the neoliberal beliefs ever since, the global institutions governing the development of the world economy have consistently advocated a set of virtually identical economic policies to national governments.53 Gradually in this way, neoliberal economic policies have been applied throughout the world.

Many held that neoliberalism has greatly exploited and devastated the countries of the periphery. It was apparent that farther a country was from the centre, the most damaging was its transition towards neoliberalism. The first manifestation of neoliberalism within countries of the periphery was the ‘Third World Debt Crises.’54 The crises started in August 1982, when Mexico announced that it was unable to ensure earlier commitments. A chain effect was initiated, and in one year, 27 countries had rescheduled their payments. Four countries in Latin America (Mexico, Brazil, Venezuela and

52 Ibid.
53 Ibid.
54 To a large extent, the decision to lend to these countries, during the 1960s and 1970s, was in response to a major goal, the fight against communism. But political conditions were different at the interstices of the 1970s and 1980s. The main cause of the crises was the rise in real interest rates in 1979. This was aggravated by structural crises of the main capitalist countries, which had a negative impact on the export of the countries of the periphery. The decline of the price of raw materials and energy also contributed to the deterioration of the situation in these countries, as the variations in the price of oil affected countries like Mexico. Greg Buckman, Globalisation: Tame it or Scrap it: Mapping the Alternative of the Anti-globalisation Movement (New York: Zed Books, 2004), pp. 76-80.
Argentina) held 74 per cent of the international debt.\textsuperscript{55} The real interest rates on debt of the Third World countries, jumped from negative rates to an increase of rates by approximately 2000 per cent, the debt of the countries of the periphery was four times larger than in 1980. On the other side, there were large flows of interest, transferred from these countries to the banks of the centre, notably in the United States.\textsuperscript{56}

Thus, neoliberal ideas strongly shaped the development of the global market economy since the 1970s. However, the dominance of neoliberalism has not gone unchallenged, and its influence may wane as new problems come to the fore and attention shifts to the institutional requirements for creating a more stable, representative and sustainable global economy.

4. Neoliberalism in the Aftermath of the Post-Cold War Period

The second phase of global neoliberalism began in the 1990s. In this phase, it has committed to a ‘roll out’ of new policies rather than just a ‘roll back’ of the state. In this connection, some argue that once the natural link of the negative phase of neoliberalism had been reached, a more positive or proactive policy is called for. Thus, the outcome was not implosion but reconstitution, as the neoliberal project itself gradually metamorphosed into more socially interventionist and ameliorative forms introduced by the


\textsuperscript{56} Ibid.
administrations of Bill Clinton and Tony Blair which came to be known as the ‘Third Way’. 57

Despite the introduction of neoliberalism in early 1990s, there has continued a low growth rate and persistent poor social development led to the introduction of the ‘Third Way’ approach. Taking an illustration of East Asian success, neoliberals insisted that embracing the world market continued to be the best policy option. For them, what was needed was some kind of repair with free market to ensure that it was implemented more effectively. This paved a way for movement away from the straightforward neoliberalism of the Washington Consensus to a new, post-Washington Consensus. This included increased attention to some safety nets for the poorest section, the promotion of institutional reforms to enable market to work more effectively and reform of the institutions of ‘governance’ in order to allow state intervention to be more ‘market friendly’. 58 Furthermore, the projected reforms were also intended to make government more accountable and transparent. Thus, it was believed that this will eliminate unproductive activity of corruption which arises as a result of government over-regulation.

57 The ‘Third Way’ approach was promoted by Bill Clinton and Tony Blair, who saw the destruction and polarisation produced by rapid and excessive adoption of neoliberal policies, argued that markets are not enough. The ideal would be a kinder and gentler form of capitalism. The Third Way is viewed as being between the free market ideology of the right and social democracy. It has been described as neoliberalism with a human face. It shares with neoliberalism the acceptance of the dominance of the market in economic life and the extension of the market into all areas of human activity. The market and the pursuit of profit is viewed as the best way of organising the economy. But the Third Way does acknowledge a role for government in the correction of ‘market failure’. Ibid., pp. 177-183. Eric Helleiner, “Alternative to Neoliberalism? Towards a More Heterogeneous Global Political Economy,” in Richard Stubbs and Geoffrey R. D. Underhill (eds.), Political Economy and the Changing Global Order (New York: Oxford University Press, 2006), p. 82; Alain Touraine, Beyond Neoliberalism (Cambridge: Polity Press, 2001), p. 89-105.

The World Development Report (1997) was considered the most sustained effort to theorise the relationship between institutional development and market expansion. The World Bank explicitly rejected the increasingly unproductive state-versus-market debate, and called for more attention to be paid to issue of state effectiveness. However, such ‘effectiveness’ was defined in terms of developing rules and institutions that would ‘allow the market to flourish’. While bad policies were said to include the raising of unexpected taxes on the private sector, the redistribution of economic benefits, and restrictions on the operation of markets, including import restrictions. The Bank also embraced more radical concepts such as empowerment, participation and partnerships between aid donors and recipients. The Bank also essentially saw empowerment exclusively in terms of the capacity of individuals to participate in markets. While, poverty and lack of power according to the Bank was as a result of people’s lack of access to income-earning activities that were derived from the market, and so market themselves should be expanded. This was also the basic design behind the movement from structural adjustment to so-called poverty-reduction strategy papers, where an increased emphasis on poverty reduction remained tied to the idea and the condition that this was achieved best through market expansion. It was also central to the Poverty Reduction Growth Facility, which was designed to give the IMF a greater role in the Heavily Indebted Poor Countries Initiatives, and which tied limited debt relief to the usual package of neoliberal policies.59 Scholar often describes, “in all these initiative, the idea that markets themselves could marginalise some people was thus dismissed from the outset. In the process, participation and empowerment were effectively depoliticised, and the power relations generated by markets were ignored. Similarly, partnership and local ‘ownership’ of adjustment policies

59 Ibid, p. 100
were limited by the need to gain approval for endorsement by the Washington institutions. The post-Washington consensus thus represented only a partial break with neoliberalism. So in terms of reconfiguring the state, one can say that neoliberalism has transformed the state rather than driven it back. The much vaunted policies of deregulation (removal of state regulatory systems) have, in fact been creating new forms of regulation with new market-oriented rules and policies to facilitate the development of new capitalism.

Many international conferences held in the 1990s on institutional mechanisms to deal with development-related issues where, the United Nations Conference on Environment and Development (UNCED) and the World Summit on Social Development acted as forefroots. Some significant outcome of these conferences was construction of a broader framework for understanding development. Particularly, UNCED was important for familiarising a wider audience with the concept of ‘sustainable development’. This concept first came to public attention in the early 1980s in an International Union for the Conservation of Nature (IUCN) document. It received further emphasis in the influential Brundtland Report of the World Commission on Environment and Development (WCED) in 1987. The report also known as Our Common Future highlighted the importance of maintaining the environmental resource base, and with this, the idea that there are natural limits to growth. However, the report made it clear that further growth was essential, but that it needed to be made more environment-friendly. It did not address the belief,

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60 Ibid.
62 Sustainable development defined as the process that meets the needs of the present without compromising the ability of future generations to meet their own needs.
widespread among a section of the NGO community, that the emphasis on growth was a fundamental cause of the environmental crises and therefore could not be the solution.\textsuperscript{63}

However, the UNCED gave farther legitimisation to neoliberal market-dominated development policies. Those policies were a means to sustainable development. Consequently, the conference failed to identify the global environmental crises as part of the existing developmental paradigm. It ignored the major issue of debt, terms of trade, aid, and the consumption of resources, which formed a central part of the discussion conducted at the parallel NGO summit at Rio. Some critics have therefore concluded that, despite the apparent mainstreaming of environmental concerns that occurred through the UNCED, “the old thinking about the economic growth still prevails” and the “old establishment that had made a living out of such economic growth has repackaged itself green.”\textsuperscript{64}

Scholars from diverse background hold that the contemporary globalisation of American capitalism\textsuperscript{65} has also disseminated neoliberalism globally. Critics contend that the ideology has been imposed throughout the world by powerful global economic institutions like the IMF, the World Bank, and the WTO. The critics present neoliberalism as the ideological basis of a global consumer society and the growing inequalities associated with it.\textsuperscript{66} For Hyper-globalists, the neoliberal hegemonic order is reducing the power of nation-states to that of local authorities in a global economic system. Neoliberalism above all, is a project to restore class dominance to sectors which saw their

\textsuperscript{64} Ibid.
\textsuperscript{65} Ray Kiely, \textit{Rethinking Imperialism} (New York: Palgrave Macmillan, 2010), pp. 139-47.
fortunes endangered by the ascent of social democratic endeavours in the aftermath of the Second World War. Though neoliberalism had limited effectiveness as an engine for economic growth, it has succeeded in channelling wealth from subordinate classes to dominant ones and from poorer to richer countries. This process has necessitated the dismantling of institutions and assertion that promoted more egalitarian distributive measures in the earlier period.67

However, the status of neoliberalism in relation to the global economy is more complex according to the proponents of neoliberal policy. For them, the critical accounts of neoliberal policies domination in the contemporary global economy overrate its credibility as both an ideology and a policy agenda. At the core of neoliberalism is a significant tension around the role of the state in a market society. Since the original meeting of the MPS, neoliberals have wanted to displace politics and policies associated with collectivism with an economic doctrine of free markets and the rule of law. Achieving this goal has meant rejecting not only nation-states as autonomous decision-making bodies, but also all other regulatory and interventionist agencies, including so-called neoliberal global economic institutions such as the IMF, the World Bank and WTO.68

5. Role of International Institutions Legitimising the Neoliberal Ideology

The role and functions of important multilateral financial institution like IMF and World Bank and WTO has been a determinant factor for the fate of many states which were greatly debated across the world. Critics hold that these global governing institutions play

68 Brink Lindsey, Against the Dead Hand: The Uncertain Struggle for Global Capitalism, (Washington, DC: Cato Institute, 2002).
roles differently from those originally agreed to under the charter that set them up.⁶⁹ Under the guidance of neoliberal ideas, the IMF and the World Bank and WTO became new adherent institutions, through which these ideas were pushed on the reluctant poor countries that often badly needed their loans and grants.⁷⁰ These multinational institutions made the opening of the Third World state’s markets often a condition for aid. Thus, the economic agenda of these institutions has coordinated neoliberal interests to integrate and de-regulate markets around the world.⁷¹

Within the globalisation debate, the IMF is seen as a key supra-national institution that has propagated and encouraged neoliberal economic globalisation. In the aftermath of the Cold War, the ways in which the IMF followed neoliberal economic policies became more explicit. In particular, during the Latin American ‘debt crises’ of the early 1980s, when a range of developing states defaulted on their debt to Western commercial banks, the IMF played a key role in brokering a solution to the crises, which involved setting policy conditionalities on countries asking for loans. These conditionalities sought to produce structural adjustment in domestic economies which often involved austerity programmes under which developing states were forced to cut spending on welfare programmes. The IMF was therefore blamed by critics for creating greater poverty and social inequalities in some countries.⁷²

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⁶⁹ Ibid. p. 23.
One of the core responsibilities of the IMF is to offer loans to countries experiencing balance of payment problems. This financial assistance enables member countries to rebuild their internal reserves, stabilise their currencies, pay for imports, and restore conditions for strong economic growth. Unlike development banks, the IMF does not lend for specific projects. However, when a country borrows from the IMF, its government makes commitment on economic and financial policies. The policies are intended to resolve a country’s balance of payment difficulties, contribute to sustainable economic growth and to enable the government to repay loans. Together, these policies constitute a member country’s policy programme (conditionality). Over the years, the most controversial aspect of the IMF’s relationship with its members has been the conditionality which has been criticised by many in the Third World on the contents of the programmes.

Every loan document specifies basic conditions. At a minimum, a loan agreement says the loan goes out on the condition that it will be repaid, usually with a schedule attached. Many loans imposed conditions designed to increase the likelihood that they will be repaid. ‘Conditionality’ refers to more forceful conditions, one that often turns the loan into a policy tool. If the IMF wanted a nation to liberalise its financial markets, for instance, it might pay out the loan in instalment, trying subsequent instalments to verifiable steps toward liberalisation. According to Joseph Stiglitz, “the conditionality, at least in the manner and extent to which it has been used by the IMF, is a bad idea as there is little evidence that it leads to improve economic policy, but it does have adverse political effects because countries were offended by having conditions imposed on them.

Some defend conditionality by saying that any banker imposes conditions on borrowers, to make it more likely that the loan will be repaid. But the conditionality imposed by the IMF and the World Bank was very different. In some case, it even reduced the likelihood of repayment. 

According to Caroline Thomas, the multilateral institutions such as the IMF is largely a creation of the Western states, especially the UK and the US. As such, it is tailored to suit their needs, as they perceived them from their foundations. Hence, its main function is to provide short-term finance to correct temporary balance-of-payment problems and to facilitate the smooth functioning of the international adjustment process. This function does not embrace the area of structural imbalances nor that of development finance. If a state falls into balance-of-payment deficit, the fund is an obvious place to go to for help. While help is usually forthcoming, there is a price to be paid for such aid. This is only to be expected, for no bank will lend money willingly unless it believes there is a fair chance of recouping its loans. The price takes the form of conditionality, which means the policies the IMF attached to its loans.

If a member wants to borrow up to 25 per cent of its quota, then it may do so without conditions being attached. Beyond this, however, lie the so-called upper credit tranches, each of this equivalent to 25 per cent of a member’s quota. It is at this higher level of borrowing that the contentious question of conditionality raises its head. In order to have access to this upper line of credit, the state must present the IMF with a stabilisation programme which is intended to rectify the imbalances, usually within a year. Other special lines of credit have been developed at various times, such as the

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compensatory Finance Facility and the Oil facility and each of this carries with it a specific set of conditions.\textsuperscript{76}

The stabilisation or stand-by programme is the most common method of borrowing. The usual procedure for negotiating a stand-by arrangement is that IMF advisors, having visited the country requesting the loan, make recommendation and offer guidelines on solution to the guideline imbalances. The state then presents the fund with the letter of intent, outlining the policies to be followed and performance targets to be met. Essentially, these policies and target are those that the IMF team has suggested. The IMF has no formal authority to dictate to a member that it should follow. However, it has both the authority and the power to refuse a loan if a state fails to accept its advice. Moreover if performance targets are not met, the loan is interrupted and there are no further drawings until conclusive negotiations have been undertaken.\textsuperscript{77} The recommendation of IMF staff reflects the philosophy which underpins the institution.

The aim and content of the IMF stabilisation package is to bring about adjustment, but in also a harsh manner than if no resources were forthcoming. The basic remedy is designed to check imports, expand exports and lower domestic consumption. Problems and solution are framed within the context of a monetary approach to a balance-of-payments analysis. The IMF team usually suggested hard-currency spending targets to limit imports, and devaluation to stimulate exports dampen domestic consumption and to check the expansion of the bureaucracy. Performance criteria are often set to constrain government policies in fields such as wages, public spending, prices and reserved levels. The loan is handed over in stages, and this depends upon passing the quarterly test.\textsuperscript{78}

\textsuperscript{76} Ibid., p. 51.
\textsuperscript{77} Ibid.
\textsuperscript{78} Ibid., p. 52.
While the application of such a policy may be suited to the economies of the developed Western states, this may not necessarily be so in the case of all the developing countries. Under the orthodox monetary approach of analysing balance-of-payment problems, it is usual to assume that a deficit is the result of technical mismanagement of the domestic economy. The IMF generally sees itself as offering technical advice for rectifying domestic problems which have domestic root. Devaluation is frequently used as a means of adjustment. While this may result in an increase in exports, it can also make the country less able to import equipment and machinery needed for developing an industrial base. Besides, it makes domestic goods dearer. Hence, the cost of living rises as food and other essential increase in price. In addition, wages ceiling, the throwing off of price controls and the food subsidies, and the withering of public programmes in the fields of health, housing, education and transport, and the potential for social strife is all too obvious. The political stability of a country can be put at risk.\textsuperscript{79}

States now are expected to follow the ideology-guided policy prescription of IMF guidelines without debate. In this connection, Joseph Stiglitz says that in personal lives, one would never follow ideas blindly without seeking alternative recommendation. Yet, countries all over the world were instructed just that. The problems faced by developing countries are severe and the IMF is often called upon in the worst situation, when the country is facing a crisis. But its remedies failed as often, or even more often than they worked. IMF structural adjustment policies designed to help a country adjust to crises as well as to more persistent imbalances led to hunger and riots in many countries; and even when results were not so dire, even when they managed some growth for a while, often the benefits went disproportionately to the better-off, with those at the bottom sometimes

\textsuperscript{79} Ibid., p. 53.
facing even greater poverty. For Stiglitz, those policies were not questioned by many of the people in power in the IMF, by those who were making the critical decision. They were often questioned by people in the developing countries, but many were so afraid that they might lose IMF funding, and with it funding from others, that they articulated their doubts most cautiously, if at all, and then only in private. But while no one was happy about the suffering that often accompanied the IMF programmes, inside the IMF it was simply assumed that whatever suffering occurred was a necessary part of the pain countries had to experience on the way to becoming a successful market economy, and that their measures would, in fact, reduce the pain the countries would have to face in the long run.\footnote{Stiglitz, Op.cit., pp. xii-xiv.}

Stiglitz agrees that some pain is necessary, but he disagrees with the levels of pain in developing countries created in the process of globalisation and development as it has been guided by the IMF and the international economic organisations has been far greater than necessary. The backlash against globalisation draws its force not only from their perceived damage done to developing countries by policies driven by ideology but also from the inequalities in the global trading system. Today, few apart from those vested interest who benefit from keeping out the goods produced by the poor countries – defend the hypocrisy of pretending to help developing countries by forcing them to open up their markets to the goods of the advanced industrial countries while keeping their own markets protected, policies that make the rich richer and the poor more impoverished and increasingly discontented.\footnote{Ibid., p. 5.}
For instance, conditions that might weaken the economy in the short run, whatever their merits in the long, run the risk of exacerbating the downturn and thus making it more difficult for the country to repay the short-term IMF loans. Eliminating trade barriers, monopolies, and tax distortions may enhance long-run growth, but the disturbance to the economy, as it strives to adjust, may only deepen its downturn. While the conditionalities could not be justified in terms of the fund’s fiduciary responsibility, they might be justified in terms of what it might have perceived as its moral responsibility, its obligation to do everything it could to strengthen the economy of the countries that had turned to it for help. But the danger was that even when well-intentioned, the myriad of conditions in some cases over a hundred, each with its own rigid timetable – detracted from the country’s ability to address the central pressing problems. The conditions went beyond economies into the areas that properly belong in the realm of politics.  

The link between trade liberalisation, growth, poverty and income disparities has been one of the highly debated topics in recent years. Following the success of the South East Asian countries or Asian Tigers (Singapore, Hong Kong, Taiwan and South Korea) and with the advance and support from international financial institution — such as the World Bank, the IMF and the WTO — many developing countries around the world have embarked on trade liberalisation programmes, along with other reforms, such as stabilisation and privatisation, over the last two decade or so. As Rodrik points out

82 Ibid., p. 44.
83 Their experience shows that countries do not have to adopt liberal trade policies in order to reap benefits from trade, to grow fast, and to grow an industrial structure able to produce an increasing proportion of national consumption. They all experienced relatively fast growth behind protective barriers, and fast growth fuelled rapid trade expansion increasingly focused on capital goods and intermediate goods. As they became richer they tended to liberalise their trade—providing the basis for the common misunderstanding that trade liberalisation fuelled their growth. Gabor Steingart, *The War for Wealth: The True Story of Globalisation, or Why the Flat World is Broken* (New Delhi: Tata McGraw-Hill Publishing Company Ltd., 2008), p. x.
“stabilise, privatisate and liberalise became the mantra of a generation of technocrats who cut their teeth in the developing world and of the political leaders they counselled. A large number of developing countries have used trade liberalisation as a centrepiece of their development strategies over the past two decades. Some trade and development economists, policy analysts and policy makers around the world believe that trade liberalisation promote growth and reduce poverty.”84

It is also true that trade liberalisation can have a positive effect on economic growth. Trade liberalisation led growth reduces poverty in developing countries while the opponents also argue that trade liberalisation makes the poor poorer and the rich richer in developing countries, linking trade, poverty and inequality.85 The free trade regime which is considered to be beneficial to all participating countries is gradually paving the way for the view that protectionism could also be used as a means to expropriate gains from international trade. Unfortunately, these developments are seen in the highly developed countries which proclaim themselves as the forerunners of free trade, while the developing countries have been showing sign of shifting over to increased liberalism. Then non-tariff barriers in the developed countries have been more than those in the developing countries.86

There is very little evidence to show that developing countries have been the major beneficiaries of the global trading order in the past. The post-War liberalisation of trade

benefitted mainly trade in manufactures, a large part of which has flowed only among developed countries. Trade in primary products and North-South trade in manufactures has been restrictive. A peculiar feature of trading has been that within manufacturing, it has been more liberal in differentiated manufactures and less restricted between countries with similar factor prices or similar economic structures. Thus, trade in primary products and between countries with highly dissimilar economic structures tended to be neglected, as it was of little interest to the developed countries which generally dominated the decision-making at multi-lateral trade negotiations.\footnote{Ibid., p. 97.}

The issue of neo-protectionism among the industrialised countries and its impact on the developing economy is contested. Many argue that the industrialised countries have, in fact, been following a policy of managed trade while being self-proclaimed champions of free trade. It is apprehended that in the absence of a firm and actual commitment in favour of a free and more open trading system which would open up the markets of the industrialised countries for export from the developing countries; the current wave of economic liberalisation going on in most of the developing countries may not turn out to be as beneficial as expected.\footnote{Ibid., pp. 98-115.}

Besides, multilateral institutions such as the World Bank have also been instrumental in promoting the neoliberal perspective on development that came to dominate the agenda of many international development actors during the 1980s.\footnote{Elisa Van Waeyenberge & others, “The World Bank, Neoliberalism and Development Research,” in Kate Bayliss & others (eds.), The Political Economy of Development: The World Bank, Neoliberalism and Development Research (London: Pluto Press, 2011), p. 6.} Furthermore, the World Bank policy of ‘rethinking’ on the role of the state to critical scrutiny cannot be overlooked. Rather than denoting a break with neoliberalism, it asserted
that such rethinking entails the reconfiguration of neoliberalism in a more hegemonic version that integrates both political and economic components. The rise of governance issues and the shift in the catchword from ‘minimal’ state to ‘effective’ state, made some analyst to conclude that there is more evidence of continuity than change, with the role of the state in economic development firmly subordinate to that of the market. The World Bank conception of the role of government remains limited and subordinate within an overall free market model of development. The World Bank also intended to construct a liberal state and hence to consolidate contemporary neoliberalism. The concepts like ‘good governance’ and ‘state effectiveness’ are fascinating yet, they have an ideological content. The Bank’s intent is not to ‘bring state back in’ but to ensure that government remain limited and the scope of state power restricted. The beneficiaries of such a strategy are the capitalist class, with private profits enhanced through state’s limited but ‘enabling’ role.\(^90\)

For supporters of neoliberal globalisation, the critics too often overlook its benefits. But the proponents of globalisation have been, if anything, even more unbalanced. To them, globalisation (which typically is associated with accepting triumphant capitalism, American style) is progress which developing countries must accept, if they are to grow and to fight poverty effectively. But to many in the developing world, globalisation has not brought the promised economic benefits.\(^91\) A growing divide between the rich and poor has left increasing numbers in the Third World in dire poverty, living on less than a dollar a day. Despite repeated promises of poverty reduction made over the last decade, the actual number of people living in poverty has actually increased by almost 100 million. For instance, in Africa the high aspirations following colonial


independence have been largely unfulfilled. Instead, the continent plunges deeper into misery, as incomes fall and standards of living decline.\textsuperscript{92} This bleak picture made critics like Harrison to tag neoliberalism as a failed ideology because its policies in Africa have failed to generate socio-economic recovery or development in Africa.\textsuperscript{93} Therefore, if neoliberal globalisation has not succeeded in reducing poverty, neither has it succeeded in ensuring stability.

Furthermore, the critics of neoliberal globalisation are highly critical about the hypocrisy of the Western countries. In many instances, the Western countries have pushed poor countries to eliminate trade barriers, but kept up their own barrier, preventing developing countries from exporting their agricultural products and so depriving them of desperately needed export income where, the United States is one prime case.\textsuperscript{94}

6. Emerging Role of Transnational Corporations (TNCs)

TNCs today are making a formidable contribution to the spread of neoliberal ideas. Corporations wield huge power through their vast resources - they put these powers to work through bribes for public officials, as well as spending huge sums on public relations and advertising as well as research and scholarly work. The advent of globalisation has given further legitimisation and the rise of TNCs. The growth and emergence of TNCs constitute the economic entity as a main component of globalisation. Those corporations which operate in more than one country or nation at a time have become some of the most powerful economic and political entities in the world today. Many of these companies

\begin{itemize}
\item \textsuperscript{92} Ibid.
\item \textsuperscript{94} Stiglitz, Op.cit., p. 6.
\end{itemize}
have become more powerful than many of the states across whose borders they operate and able to make a great impact on the socio-economic life in the developing world.

Many observed that the current phenomena of globalisation are dominated by TNCs. In fact, this small group for instance just hundreds of corporates dominate, a quarter of world economic activity. For instance, General Motors is bigger than Denmark, Ford is bigger than South Africa. Also the difference between Tanzania and Goldman Sachs is Tanzania GDP is 2.2 billion dollars and shares between 25 million people. Goldman Sachs is an investment firm which has annual profits for the tune 2.2 billion dollars and shares them among 161 partners says Dr. Susan George.95

In recent years, these TNCs have gained increasing power and due to their economic strength and global network, they exercise so much power globally.96 The indicators of economic globalisation are the growing power of the multinational corporations, internationalisation of production and the flow of financial capital between countries. It has become increasingly difficult and perhaps impossible for any country to regulate the international flow of capital thus making it difficult for individual states to manage economic life. States have also found it difficult to regulate multinational companies for they can easily relocate production and investment.97

97 Globalisation is the process through which events and decisions in one part of the world have come to affect people in another part of the world. It has led to a greater inter-locking of different parts of the world. It has often been claimed that globalisation poses challenges to the sovereignty of the state. Globalisation is a multi-dimensional process and includes the economic, cultural and political aspect of life. The economic aspect refers to the emergence of an inter-locking global economy and the worldwide spread of capitalism. Rajeev Bhargava and Ashok Acharya (ed.), Political Theory: An Introduction (New Delhi: Pearson Publication, 2012), p. 184.
TNCs integrated as the global actors aimed at controlling the global political economy and possess the entire natural resources by silencing the vast majority of human beings across the globe taking away the rights, freedom, liberty and privileges. They were successful in bringing under their control, the national and international law, treaties, institutions, agencies, etc., in order to dominate the global order. Expansion of global economic forces and TNCs were seen in the decade of 1980s itself. Its symptom has been seen in reduction of state autonomy into mere structures assisting the TNCs for their expansion.

The transnational flows of goods, investments, production and technology have created the new global order. The actors of the new global order have either created their own institutions in place of previous structures of nation-states or suited the nature and functioning of the existing ones. There has been a tight integration of the globalist corporate elites with the nation-states in so many ways and made possible the centralisation of political decisions, an essential element of utilisation of states resources to strengthen the profits and growth of capital accumulation. They have also very successfully imposed SAP through which sovereign states were compelled to privatise natural resources and public assets. The TNCs have become autonomous, being directed and control the whole process by superseding the neo-liberal states. The position and activities of the states were replaced by the markets and confined its functioning into maintenance of law and order. States were compelled to withdraw from the welfare activities and put an end to invest in social sectors like health and education. The states

were also constrained to reduce its regulations on foreign trade to demolish political and economic constraints in overseas markets.\footnote{Ibid., p. 143.}

While it is also clear that the American and European TNCs easily dominate and control the world markets and world economy and thus there was concentration and centralisation of capital. These companies could eliminate or swallow smaller companies through mergers and acquisition. According to the list of fortune global 500s top companies in the world by market value in 2014; US accounts for 203, UK 37, Japan 34, France 28, Germany 20, China 18, Switzerland 13, Canada 22, Hong Kong 14 and Australia 11.\footnote{Ibid., p. 144. Also see Annebritt Dullforce, “Financial Times 500 2014,” London Times, 27 June, 2014 http://www.ft.com/cms/s/0/988051be-fdee-11e3-bd0e-00144feab7de.html#axzz3VEaNyGPO (Accessed on 13 February 2015.)}

With the advancement of the transnational capitalist forces, several multi-lateral institutions were transformed into their supporting agencies. The IMF, World Bank, WTO and GATT are important among them. The various rounds of trade negotiations and agreements like North American Free Trade Agreement (NAFTA) and Free Trade Area of the Americas (FTAA) enhanced transnational capitalist power and profits at the cost of increasing economic instability and deteriorating working and living conditions. Also Trade-Related Aspects of Intellectual Property Rights (TRIPS), etc. made the TNCs the sole proprietors of patents through which they could regulate, dominate and control government and economies. Though IMF was established for noble and just objectives of financial support to emerging nations and societies, now it stands for the monolith hegemony of the TNCs over the economies and natural resources of the entire world. Designated by the US Treasury, majority of the members in the World Bank and IMF are
US officials, who interfere in the autonomy of the nation-states by deciding on government spending level, property relations, domestic markets, spending in social sectors, etc., even without national debates, consultations and bypassing democratic and parliamentary devices. Thus, these international agencies and institutions exist and function for the US and its corporate interests.\textsuperscript{101}

Almost majority of the TNCs hail from the US and other European states, the government establishment, their policies, important decisions, etc, are dominated and controlled by these corporations. America establishes and maintains its political, economic and cultural domination over the world. Both the dominant Republican and Democratic parties in the US are competing for expanding their corporate power outside the US. All the important administrative agencies in the US Congress, Presidency, and the Federal Reserve are committed to their global expansion. By making use of its influence the US can manipulate several international agencies such as the IMF and the World Bank.\textsuperscript{102}

As the American Treasury Department officials are influential members of the IMF and World Bank, they intrude into its policy-making positions and make their decisions in favour of US corporate interest. They easily make decisions for these agencies in favour of the US expansionist interests and adopt to weaken their potential rivals. The US through its various agencies like the CIA, Pentagon and Treasury exerts its domination in other economies such as Japan, Europe and Latin America. By utilising its combined political and military power, the US interferes and dominates the rest of the world and compels them to accept and follow free market and SAPs. Thus, the US has created

\textsuperscript{101} Ibid. Also see Martin Hart Landsberg, \textit{Capitalist Globalisation: Consequences, Resistance, and Alternatives} (Kolkata: Granthamela, 2013), p. 71-89.

\textsuperscript{102} Ibid.
internal and external environment by which it reaps political and economic advantages, provides the US companies with internal resources and international framework for large-scale mergers and overseas expansion leading to the re-emergence of the American economic empire. Critics like Naomi Klein in her books No Logo (2000) and The Shock Doctrine: The Rise of Disaster Capitalism (2007) accuses the U.S government of favouring corporate America and oppressing the American people. The shock therapist take advantage of every major shock—“the attack on the World Trade Centre, Hurricane Katrina, and the Indian Ocean tsunami, to push their neoconservative model,” says Klein. As far as she is concerned, the United States is big, powerful and cruel and asserts that the US capitalism is “on the rise,” where its aim is global dominance, therefore, critical voices like hers no longer count.

It is often argued that corporate behaviour to make huge profits can affect people all over the world. Large number of TNCs can have a powerful influence in international relations. Some of these TNCs are stronger than many Third World countries in terms of finance and can influence the governments of these countries to force them, alter their laws in areas of tax, environment, labour and other related laws to their convenience. Some of them also do not respect minimum standard of international human rights norms and can thus be implicated in abuse such as child labour, banning labour unions, failing to provide safe healthy working conditions, discouraging the right to bargain collectively, limiting the broad dispensation of new technologies and right to intellectual property and dumping toxic waste anywhere unsafely. Some of these human rights violations affected

\[103\text{ Ibid., p. 145.}\]
developing countries, children, women and men who work in unsafe and poorly paid production jobs in TNCs as well as indigenous community and groups. According to David P. Forsythe, “the most fundamental raison d’etre of the TNCs is precisely economic self-interest, not to be a human rights actor. At least that has been the historical situation.”

7. Shrinking Role of the State from Development

Despite tremendous achievements, states continue to struggle over the issues of development and meeting their societal needs. This has become so severe especially for Third World states in contemporary times. Also, development in the global arena is problematic and debatable. The major contention is the uneven development between the states and societies within the state. Lately, to overcome the development dilemma and to have rapid economic growth, neoliberals suggest market, the most efficient way to allocate resources and the optimum milieu to achieve human freedom. It holds that government intervention in economic life threatens freedom, and competitive capitalism. In this vision, the state in the future for them has fewer roles to play except assist in protecting the market system through maintaining law and order and upholding the rights of private property. Government intervention is considered undesirable as it transgresses the rationality and conspires against both efficiency and liberty.

Development normally has no single accepted definition but is a multi-dimensional concept.\textsuperscript{108} Development in simple terms refers to the gradual advancement or growth through a series of progressive changes. Beyond doubt, many agents are engaged in the development process, here, the emphasis is state’s central role in the basic human development process.

The basic human development focuses on poverty, inequality of income and wealth, access to employment, education, social services, healthcare and sustainable development.\textsuperscript{109} For instance, Amartya Sen went beyond the narrow definition and embraced the broader notion of development by arguing that development is the process of expanding real freedom which people enjoy. The real human freedom to him is opposite to the narrower views of development emphasising on GDP growth, increase in personal incomes, industrialisation, technological advancement and social modernisation. Freedom according to him also depends on other determinants, such as social-economic, education, healthcare, civil and political rights.\textsuperscript{110} Moreover, for Sen, development also requires the removal of major source of unfreedom such as poverty, oppression, poor economic opportunities, systematic social deprivation, neglect of public facilities, and intolerance and repressive states.\textsuperscript{111} Lately, these issues redefined the meaning of development which essentially denotes not merely focussing on aggregate country’s economic growth. These issues are so basic for human advancement which has become deficient in many Third World states. Therefore, it is important to see the role of the state in addressing these issues under neoliberalism.

\textsuperscript{111} Ibid.
To achieve basic human development, the concept of the welfare state is an imperative. In a welfare state, the state plays a key role in protection and promotion of economic and social well-being to all its citizens based on equality of opportunity, equitable distribution of wealth, and ensures public responsibility for those unable to avail themselves of the minimal provision for a good life. A welfare state provides education, housing, sustenance and healthcare for its citizens. It also provides benefits such as pensions and unemployment insurances and it provides equal wages through price and wage controls. The government also provides public transportation, child care, social amenities such as public parks and libraries as well as many other goods and services. Some of these things are paid for through government insurance programmes and others are paid for by taxes.\textsuperscript{112}

As opposed to the concept of a welfare state, the neoliberal state suggests human well-being can be best advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterised by strong private property rights, free markets and free trade. These are the institutional arrangements considered essential to guarantee individual freedoms. The legal framework is freely negotiated contractual obligations between individuals in the market place. The sanctity of contracts and the individual right to freedom of action, expression and choice must be protected. The state must therefore use its monopoly of violence to preserve these freedoms at all costs. By extension, the freedom of business and corporations (legally regarded as individuals) to operate within this institutional framework of free markets and free trade is regarded as a

fundamental good. Private enterprise and entrepreneurial initiative are seen as the key to innovation and wealth creation. Intellectual property rights are protected so as to encourage technological changes. Continuous increases in productivity should then deliver higher living standards to everyone. The neoliberals hold that the elimination of poverty (both domestically and globally) can best be secured through free markets and free trade.\textsuperscript{113}

With the intensification of neoliberal ideas, the state today provides less welfare provisions. On account of these new developments, analysts often referred to it as “retreat of the state” from a range of social and welfare to security services\textsuperscript{114} or “decline of the authority of states.”\textsuperscript{115} The overall decline of state power is that the intervention of state authority and of the agencies of the state in the daily lives of the citizen appears to be growing.\textsuperscript{116}

Therefore, any development agenda today will be meaningless if it fails to address these issues or without inclusive development which are so basic to human development. All these accounts sufficiently prove that the rise of the global market under neoliberalism has reduced the role of the state and its capacity in many areas such as the provision of development. The ideology of the market and private interest of neoliberalism compels the

state to act not in the interest of the majority population but for the few groups. This ultimately has resulted in the questioning of legitimacy in many states.

8. Issue of Legitimacy

Legitimacy is an important foundation of any modern state. Legitimacy in general can be understood as the extent to which a state commands public loyalty to the governing regime and to generate domestic support for that government’s legislation and policy. Such support is created through a voluntary and reciprocal arrangement of effective governance and citizenship founded upon broadly accepted principles of government selection and succession, recognised both locally and internationally. Those states which the ruling regime lacks support either domestic or general international recognition suffers a lack of legitimacy. Such states face significant difficulties in maintaining peaceful relations between and among various communities within the state.117

Political science terminology defines ‘legitimacy’ as popular acceptance of an authority, notably, governing law or a regime. ‘Authority’ denotes a specific position in established government and ‘legitimacy’ denotes a system of government and its sphere of influence. Therefore, political legitimacy is considered a basic condition for governing, without which a government is likely to suffer legislative deadlock and collapse. In moral philosophy, the term ‘legitimacy’ is often positively interpreted as the normative status conferred by the people upon their government, institutions, offices, and actions, based upon the belief that the government actions are appropriate uses of power by a legally constituted government. Thus, legitimacy is a value whereby something or someone is

recognised and accepted as right and proper. In many Third World states, the issue of legitimacy has been greatly challenged and contested. Therefore, the underlying question here is what will be the condition when states go ahead in implementing neoliberal economic policies in already embattled states like those of the weak Third World?

For instance, neo-Marxists see the legitimacy crisis as a series of ‘crises tendencies’ within capitalist societies that make it difficult for them to maintain political stability through consent alone. As Jurgen Habermas asserts that at the heart of this tension, lies contradictions and conflicts between the logic of capitalist accumulation on the one hand, and the popular pressure through democratic politics. From these perspectives, capitalist economies are seen as remorseless expansion, dictated by the pursuit of profit however, the extension of political and social rights in an attempt to built legitimacy within such a system has stimulated countervailing pressures. In particular, the democratic process has led to rising demands for social welfare as well as for increased popular participation and social equity. The resulting expansion of the state’s responsibilities into economic and social sectors, and the relentless rise of taxation and public spending constrain capitalist growth by restricting profit levels and discouraging enterprises. In Habermas’s view, capitalist democracies cannot permanently satisfy both popular demands for social security and welfare rights and the requirements of the market economy based on private profit. Forced either to resist popular pressures or to risk economic collapse, such societies would find it increasingly difficult, and eventually impossible, to maintain legitimacy. A very similar problem was identified in the 1970s in the form of what was called ‘government overload’. Scholars such as Anthony King and Richard Rose assert, “Governments were finding increasingly difficult to govern

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because they were subject to over-demand. This had come about because politicians and political parties were encouraged to outbid one another in the attempt to get into power, and because pressure groups were able to besiege government with unrelenting and incompatible demands. Government’s capacity to deliver was further undermined by the general drift towards corporatism that created growing interdependence between government agencies and organised groups.”

The politics of the 1980s and 1990s can be considered as a response to this legitimacy crisis. The call for change in priorities from the New Right is one such example. Theorist such as Samuel Brittan highlighted the fiscal crises of the welfare state and spoke about the ‘economic contradictions of democracy’. (footnote) This has led the government of Reagan and Thatcher to lower popular expectations from governments by shifting the responsibilities from the state to the market. Welfare, for instance, was portrayed as largely a matter of individual responsibility, individuals being encouraged to provide for themselves by hard work, savings, private pensions, medical insurance and so on. Unemployment was no longer seen by the government as the responsibility of government. The New Right attempted to challenge and eventually displace the theories and values that had previously legitimised the progressive expansion of state’s responsibility. As a result of which, a political culture that once emphasised social justice, welfare rights and public responsibilities has given way to one in which choice, enterprise, competition and individual responsibility have become more prominent.

Many states today face a crisis of legitimacy as a result of the incapacity of the state to provide welfare functions and fulfil security needs of the people. It is on the basis

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119 Ibid. p. 214.
120 Ibid. p. 215
of the state’s ability to perform its traditional security functions that a number of analysts have claimed to discern a growing legitimacy deficit.\textsuperscript{121} Contrary to earlier perception that states were the master of markets today, it is markets which on many crucial issues, are the master over the governments of states. It is not necessarily inconsistent that ‘state power is declining’ which some argue but their main contention is that it is less effective on those basic matters that the market, left to itself, has never been able to provide security against violence, stable money for trade and investment, a clear system of law and the means to enforce it, and a sufficiency of public goods like drains, water supplies, infrastructures for transport and communications. States are now less respected and lack its earlier legitimacy. The need for political authority of some kind legitimated either by coercive force or by popular consent, or more often by the combination of the two, is the fundamental reason for the existence of the state. But many states are becoming deficient in these fundamentals.\textsuperscript{122} Eventually this might lead to serious political crises which might further leads to collapse of the state.

Concepts like ‘State collapse’\textsuperscript{123} and ‘State failure’\textsuperscript{124} are being used to explain new type of “severe political crises. These concepts do not refer to any political instability or anarchy but go beyond them to explain a certain kind of a deeper political crisis. At a general level, the concepts refer to instances where the institutions of the central state have been so weakened that they are no longer able to maintain authority or political order

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\textsuperscript{121} Clark, Op.cit., p. 184.\\
\textsuperscript{122} Strange, Op.cit., p. 5. Also see George Sorensen, The Transformation of the State: Beyond the Myth of Retreat (New York: Palgrave Macmillan, 2004), pp. 31-9.\\
\textsuperscript{123} I. William Zartman (ed.), Collapsed States: The Disintegration and Restoration of Legitimate Authority (Colorado: Lynne Rienner Publisher, Inc., 1995), pp. 5-9.\\
\end{flushright}
within the territorial boundaries of the state. Such cases of state collapse usually occur in circumstances of widespread and violent civil conflict, often accompanied by severe humanitarian crises. These conditions may precede or follow the institutional collapse of the state. Sometimes they are instrumental in causing it. In a larger framework, they are part of a syndrome of serious political crises, which, in the extreme case, leads to the collapse of the state."  

Though contested, failed states usually denote those states, which are tense, deeply conflicted, precarious and contested among warring factions. In most failed states, state security forces combat an armed revolt of one or more rival groups. Occasionally, the official authorities in a failed state face two or more insurgencies, varieties of civil unrest, different degrees of communal discontent, and a plethora of dissent directed at the state and at groups within the state. It is not the absolute intensity of violence that identifies a failed state. Rather, a cycle of violence (as in recent Angola, Burundi, and Sudan), intensity of violence, which engulfs great swaths of states (as in Afghanistan, Burundi, Cote d’ Ivoire, the Democratic Republic of the Congo and Sierra Leone), that much of the violence is directed against the existing regime, and the inflamed character of the political or geographical demands for shared power or autonomy that justifies the violence in the minds of the insurgents. For instance, the civil wars that characterise failed states usually stem from or have roots in ethnic, religious, linguist, or other communal enmity. The fear of other that drives so much ethnic conflicts stimulates and fuels hostilities between regimes and subordinate and less-favoured groups. 

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State’s collapse because they can no longer perform the functions required for them to pass as a state. A state is the authoritative political institution which is sovereign over a recognised territory. According to William Zartman, this definition focuses on three functions: the state as the sovereign authority the accepted source of identity in the arena of politics; the state as an institution and therefore a tangible organisation of decision-making and an intangible symbol of identity, and the state as the security guarantor for a populated territory. Because these functions are so intertwined, it becomes difficult to perform them separately: a weakening of one function drags down others with it. It also becomes difficult to establish an absolute threshold of collapse.\(^\text{127}\)

Viewed from normative understanding, in a collapsed state, the basic functions of the state are no longer performed. As the decision-making centre of government, the state is paralysed and inoperative, laws are not made, order is not preserved, and societal cohesion is not enhanced. As a territory, it is no longer assured security provision by a central sovereign organisation. As the authoritative political institution, it has lost its legitimacy, which is therefore up for grabs, and has lost its right to command and conduct public affairs. As a system of socio-economic organisation, its functional balance of inputs and outputs is destroyed; it no longer receives support from nor exercises controls over its people, and it no longer is even the target of demands, because its people know that it is incapable of providing. No longer functioning, with neither traditional nor charismatic nor institutional sources of legitimacy, it loses the right to rule.\(^\text{128}\)

The phenomenon of state collapse according to James N. Rosenau, “has to be located in the nature of the international system today and the ongoing changes in the


character of the state due to the onslaught of global forces. The global order since the end of the Cold War has enhanced the vulnerabilities of the state. It is increasingly under threat by interlinked global forces. Its power and authority are being eroded by global economic forces and the growing assertiveness of individuals, groups, clan, tribes and other such actors. Global market forces are eroding the economic power of the state. Its capacity to satisfy increasingly strident demands from a wide range of newly assertive internal constituencies is diminishing. This in turn is leading citizens around the world to shift their primary political loyalty from the state to more familiar and accessible communities usually groups organised along ethnic, religious, tribal, caste and linguistic lines. This has been referred as to ‘relocation of authority’ or the ‘diffusion of authority’.129

As a result of this phenomenon, a growing number of sub-state actors have begun to play a significant role in the fate of peoples worldwide. Furthermore, the diffusion of authority also produces a degree of fragmentation and disorder within states where ordinary citizens seek protection or reassurance through close association with their ethnic, tribal and religious kin.130

9. Sharing the Monopoly of Violence

Another debatable feature is the growing diffusion of state monopoly of legitimate violence. In the contemporary era, traditional state security function is undergoing a rapid transformation with intensifying privatisation and contracting out state tasks. The ongoing privatisation of security and the role of private security companies (PSCs) in warfare have greatly challenged the traditional notions. In this way, the monopoly of the state legitimate

130 Ibid.
violence is being shared\textsuperscript{131} with the market. Ian Clark has argued that the ongoing privatisation of security provision could threaten global order where private forces are less accountable and controllable than state military forces.\textsuperscript{132}

A historical account shows that from the seventeenth century, social contract theory has laid the foundations for the state monopoly on the legitimate use of collective violence and the theory of the democratic control of armed force in Western democracies. According to this theory, the origin of the state itself lies in peoples’ search for security. Social Contract theorists from Thomas Hobbes to Jean-Jacques Rousseau argued that citizens give up their right to the private use of force other than in self-defence in return for protection by the state. However, whereas Hobbes wrote under autocratic regimes and accepted that any central authority such as a monarch or despot can have the authority to control the use of collective violence, Rousseau writing in the wake of the French Revolution, asserted that only a democratic representation of the citizens can legitimately hold control over the collective use of force. Hence, contemporary democratic notions of the state, the citizen and the armed forces and their roles in security build on Rousseau’s theory.\textsuperscript{133}

In this approach, republican form of government in the West departs from the basic premise that individuals are essentially interdependent and concludes that the community is best placed to ensure the safety of its citizens. With this understanding, the state or government is considered as the democratic representation of the community which is central to national and international security. The ideal model of the republican state is

\textsuperscript{131} Ibid.  
\textsuperscript{133} Ibid., p. 11.
that of centralised ‘government’, i.e., the collective supply of and control over public resources and functions. With regard to security, this model includes the monopoly of the state on the provision of national and international security, the centralised supply of all security-related functions by the state and the armed forces, and the public financing and ownership of and control over the production of the means of collective force ranging from weapons to military services. The republican ideal of collective security provision is underpinned by the perception of common security interests and norms such as national sovereignty, command and control, and redistribution. The citizens’ counter-balance the strong powers of the state in security through the combination of two roles: a political role as electors of the government and a military role as citizen-soldiers. These roles permit citizens to exert direct control over the government and the armed forces through their participation in the democratic decision-making process and the implementation of the defence of their community. Moreover, the citizen-soldier contributes to the civilianisation of the military and ensures that the armed forces form an integral part of society. The democratic legitimacy of these forces rests on the right and obligation of the citizens to act in collective self-defence.¹³⁴ Scholars like Samuel P. Huntington while explaining civil military-relations also advance a normative assumption that civilian control of the military is preferable.¹³⁵

While in contrast, classical liberalism greatly focussed on the freedoms of the individual citizen.¹³⁶ Following the idea of classical liberalism, neoliberalism proceeds

¹³⁴ Ibid.
with the rights and freedoms of the individual citizen. However, unlike classical liberals, neoliberals emphasised the role of capitalism in satisfying the needs of citizens and in limiting the coercive powers of the state. Thus for neoliberals such as Friedman, the ideal relationship between the state, the citizen and the soldier is not primarily based on surveillance and punishment of abuses of armed force, but on the availability of free market alternatives to the state.\footnote{137 Krahmann, Op.cit., p. 34.}

However, like classical liberals,\footnote{138 The emergence of liberal political thought from the seventeenth century onwards, notably through the work of theorist such as Locke, Montesquieu, Bentham, James Mill and his son John Stuart Mill, complimented the free market economies of the classical economist of that period, most notably Adam Smith and David Ricardo. Together they provided a fully-round liberal theory of how economy-state-society relations should be conceived. From its inception, classical liberalism assumed the merit of a free market economy and was especially concerned with circumscribing the political parameters of the state that is restricting it from interfering in the economy and in civil society. Classical liberalism presented the world as divided into the 'public sphere' of politics and the 'private sphere' of economy and family life, into which state should not intervene. Gordon Crawford, “The World Bank and Good Governance: Rethinking the State or Consolidating Neo-liberalism?” in Alberto Paloni and Maurizio Zanardi (eds.), \textit{The IMF, World Bank and Policy Reform} (New York: Routledge, 2006), pp. 126-7.} Friedman started from the premises that the great threat to freedom is the concentration of power. He says, government is necessary to preserve our freedom, it is an instrument through which we can exercise our freedom, yet, by concentrating power in political hands, it is also a threat to freedom. He argued that two core principles that help to prevent the abuse of governmental power is ‘the scope of government must be limited’ and ‘government power must be dispersed.’ However, Friedman’s neoliberalism diverges from classical liberalism in two main respects. The first is the degree to which Friedman advocated the application of these principles to the institutions and practices of state, citizenship and the armed forces. The second is his emphasis on the role of the free market in preventing the concentration of the means of
and control over violence within the state. According to Friedman, competitive capitalism is ‘a necessary condition for political freedom.’  

Friedman agreed that the state’s main function is “to protect our freedom both from the enemies outside our gates and from our fellow-citizens” and that “there are clearly some matters with respect to which effective proportional representation is impossible. He also says that an individual cannot get the amount of national defence of one’s need and other, a different amount.” However, this does not mean that the ideal of the small state and the balancing role of the market have no role in national and international security. On the contrary, Friedman believed that market principles can suitably be applied to defence. Specifically, he proposed that the ‘appropriate free market arrangement (for the armed forces) is volunteer military forces which is to say, hiring men to serve.’ The US practice of peacetime conscription in 1962 was unjustifiable for Friedman as “Present arrangements are inequitable and arbitrary, seriously interfere with the freedom of your men to shape their lives, and probably are even more costly than the market alternatives.”

While classical liberalism focuses on citizens’ self-help and (constitutional) law in providing limitations to the coercive power of the state, neoliberalism assigns this role to the free market. It argues that the best means for preventing the abuse of state control over armed forces is to establish a competition between the state and the market. The market helps to divide coercive capabilities among multiple companies and between public and private agents and, thereby, prevents a centralisation of power which could endanger the

140 Ibid.
141 Cited in Krahmann.
rights and freedoms of the citizens.\textsuperscript{142} In contrast to republicanism, liberalism sees citizens foremost as autonomous individuals whose interests, rights and freedoms must be protected from undue interference by the state. To achieve this aim, the liberal model proposes to limit and fragment the functions and powers of the state and the armed forces with regard to the provision of and control over the means and use of collective violence. The liberal ideal model of the state is that of fragmented ‘governance’, involving the dispersion of political resources and powers among a multitude of governmental and private actors. In the area of national and international security, the liberal governance model suggests the geographical and functional fragmentation of security provision among public and private providers at different levels and with divergent expertise. Moreover, it contends that the financing and ownership of and control over the means of violence should be dispersed among multiple actors in order to prevent governmental abuses of power. Underlying the liberal governance model are norms such as the limitation of state sovereignty, self-government and laissez-faire which see the role of the state in the protection of the right of the citizens to self-determination. The preferred models of the soldier in liberalism are therefore, the politically neutral professional soldier or the private military contractor. Both not only offer citizens a personal choice between public and private security providers, but also whether or not to serve in the military. Nevertheless, the ways in which democratic control over both models of the soldier is achieved are quite distinct. The professional soldier is controlled through duty, patriotism, a collective professional ethos, and the separation of the political and military roles of the citizens. Conversely, the private military contractor has no general obligations other than to the employer or contract, is motivated by private gain, is alienated from society and is held

\textsuperscript{142} Ibid.
accountable through market rather than institutional relations. In nutshell, the liberal model argues that the fragmentation, separation and balancing of the control over the means and use of collective force are key to safeguarding the democratic accountability of national and international security.\footnote{Ibid., p. 13.}

Thus, the liberal ideal-type model of fragmented governance is in many ways, the opposite of centralised government. It builds on the notion that limiting role of the state best ensures its democratic control and accountability. Instead of centralisation, the governance model contends that the fragmentation of functions, resources, decision-making and policy implementation between the state and the market helps to safeguard democracy. Therefore, neoliberalism contends that competition between public and private providers also leads to greater responsiveness to the individual interests of all citizens.\footnote{Ibid., p. 39.}

Implicit in the liberal model of fragmented governance is a confidence in the heterogeneous and sometimes conflicting nature of citizens’ security interests. Rather than subordinating them to the will of the general public, the liberal governance model seeks to ensure that citizens can pursue their individual interests as freely as possible. In so far as the political coordination of private security interests is necessary, the governance model argues, it is best left to market force or to voluntary cooperation among the citizens themselves. Owing to the liberal focus on individual interests and rights, the guiding norms of the governance model are the limitation of state sovereignty, individual self-government and marketisation. Domestically, state sovereignty is limited by restricting the scope of the state and its intervention in the lives of its citizens. According to liberalism,
the main task of the state is the protection of citizens’ rights rather than the provision of public services. Internationally, therefore, the governance model is more open to interventions and alternative authorities, such as international private regulatory bodies and PSCs. The market can respond to individual demands. In security, this means the market can cater to the varying needs of private individuals, households and corporations.\textsuperscript{145}

One core logic as why market forces providing security or doing the role of security service is as simple as that among other reasons, the market sees this kind of services a huge profitable business. These services are not free of cost. The intensifying role of market forces in modern warfare also suggests, it may become a stakeholder in the perpetuation of conflicts rather than resolving them. Therefore, the interest for profits could only be served through prolongation of conflicts rather than an immediate end. While at times of war, the military budget and manpower increases and if these functions are being performed by market forces, it would be in their interest to maintain the continuation of that pattern of resource allocation. Also, there is a misconception that the use of market forces by states saves money while in reality, security budgets will only increase in the emerging complex security scenario and majority of those budgets would fall in the hands of market forces.\textsuperscript{146}

Despite this trend, there has been a call for the protection from non-state terrorism for instance, proves the continuing significance of the state. Some rightly point out in this connection that “when citizens of the state require emergency medical relief, as many

\textsuperscript{145} Ibid. p. 40.
victims of the Bali bombings did in October 2002, there is little point appealing to market forces for help. Nor can those responsible for attacks such as the Beslan School in September 2004 be hunted down, disarmed and prosecuted by private owned TNCs. It is strongly argued that even if the state is no longer prepared to insulate its citizens from the vicissitudes of the world economy, it is still expected to secure them from the threat of terrorism. Only the state can meet these and many other challenges such as border protection and transnational crime. There are no market-based solutions to the dangers posed by what seems to be the latest chapter in the revolt against the west.” 147

The global promotion of neoliberal ideas cannot remain unchallenged. Lately, one can witness a growing challenge over the policies and working of neoliberalism at local, national and international level. These challenges have come in the form of new social movements and critiques against global neoliberalism.

10. Critique of Global Neoliberalism

Since the 1990s diverse social movements have emerged and engaged in popular resistance against global neoliberalism. Diverse movements such as the Marxists, social activists, NGOs, trade unions, religious groups, environmentalists, scholars and women activist. They have demonstrated against the policies of global neoliberalism. The

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147 Quoted from Burchill, Op.cit., p. 80. On 1st September 2004, a group of terrorists seized more than 1,200 hostages in School Number One in the North Ossetian town of Beslan. It was the first day of the new school year. The deadliest hostage crises in history was about to unfold. After a fifty-two hour stand-off, detonation of explosive devices inside the school triggered a chaotic rescue operation, in which 331 people were killed, 176 of them children. The Beslan school hostage crisis was an unprecedented terrorist attack, both in its scale and targeting. It was not only the largest ever terrorist takeover of a school, but also the third deadliest terrorist attack in world history. It is therefore clear that learning the lesson from Belslan is one of the key prerequisites for designing effective counter-terrorism strategies for the twenty-first century. Adam Dolnik, “Negotiating the Impossible? The Beslan Hostage Crises,” Whitehall Report Series, London, 2007, p. 1.
movements have spread globally from Rio de Janerio to Seattle (November 1999) and Washington (April 2000), Millace (June, 2000), Melbourne (September, 2000 against the World Economic Forum), Prague (against the IMF), Seoul (against the Asia-Europe Summit), Nice (against the European Union Summit), Quebec (2001, against the launching of FTAA), Gothenburg (against the EU Summit). Those affected by global neoliberalism from above have converged and are brought together by common interest and purposes. It is the potential power of this confluence of capitalist supremacy that holds its interests, not the threat of a few thousand protesters. 148

At the national level for instance, in India, many social movements have become embedded in global networks and alliances. The participation of sections of the environmental movement in transnational opposition to neoliberalism as embodied in the WTO and multilateral financial institutions, and the increasing ties between the movements for tribal rights and the international campaigns on indigenous people are some instances of a growing trend. Movement protesting against the attack on farmers whose land is being destroyed and taken away by the government in order to build dams and corporate industries. Environmental activists are joining with key sections of organised labour as well as groups protesting against the Third World debt.149


The multiple resistance movement against neoliberal capitalism are not exclusively on particularised rights and interests but focussed on broader issues, the crisis of political culture and democracy that connects the militarisation of public life with the collapse of the welfare state and the attack on civil liberties.\textsuperscript{150} For instance, anti-globalisation movement argues:

It is not just an anti-poverty crusade. It’s not just about debt relief, fair trade, economic deregulation, eradication of inequality, good governance, or environmentally sustainable development, thought all these are part of it. It is about protecting and building democracy, community, and identity. It’s about changing a system that has been grossly unfair to the Third World, and has eroded individual and collective economic choices even in the developed world.\textsuperscript{151}

In the early 1980s, economic policies were launched within the global political economy. Governments across the world began to embrace more liberal policies that soon freed up market forces, both at the international and domestic levels, to a much greater degree. These neoliberal policies revolution swept across Western and Southern countries, and then became almost globally dominant by the early 1990s when states in the former Soviet Union also embraced free-market reforms. Public officials at international conferences declare that the neoliberal ‘Washington Consensus’ is outdated, while activists across the world mobilise confidently behind the slogan ‘Another World is Possible’. This backlash against neoliberalism is often analysed by the international political economy (IPE) scholars through interest-based analytical frameworks that mapped the various economic groups affected negatively by neoliberal reforms.\textsuperscript{152}

\textsuperscript{150} Ibid.
Transnational Social Movements (TSMs) were among the prominent opponents of neoliberal policies. By the early to mid-1990s, they had already begun to emerge as important critics of neoliberal economic policies through their co-ordinated campaigns against IMF and World Bank programmes. More recently, TSMs are credited with helping to stop a number of major neoliberal initiatives at the international level. One of these was the proposed Multilateral Agreement on Investment (MAI). This liberal international investment treaty began to be negotiated by the Organisation of Economic Cooperation and Development (OECD) governments in 1995, but it was abandoned by 1998 in part because of large-scale opposition generated by transnational activists. The unravelling of the MAI negotiations was soon followed by collapse of the initiative to launch a new international round of trade negotiations in 1999, in Seattle. The prominence at these events has attracted unprecedented public attention to these meeting and has encouraged broader criticism of the neoliberal policy agenda.\footnote{Ibid. Also see Martin Hart-Landsberg, \textit{Capitalist Globalisation: Consequences, Resistance, and Alternatives} (Kolkata: Granthamela, 2013), pp. 71-89.}

The critics are not opposed to economic globalisation itself but simply to the kind of globalisation that neoliberals endorse which is a globalisation process driven and organised by free market. They are also not a single movement, but rather represent various transnational groups with diverse world views. Some of the critics are inspired by ideologies that have acted as important challenges to economic liberalism in the past. Within critics many, for example are ‘embedded liberals’ who are concerned over the neoliberal policy revolution that is rolling back various forms of social protection against unregulated capitalism introduced during the post-War era. The post-War Bretton Woods order endorsed international economic liberalism but only to the extent that it was
compatible with strong welfare states and macro-economic management designed to promote full employment. Contemporary embedded liberals believe that advocates of neoliberal polices are making a grave mistake of forgetting that unregulated free markets can result in social and economic upheavals of the kind experienced during the Great Depression of the 1930s.\textsuperscript{154}

Within structuralists, prominent among them are southern policy-makers during the post-World War. They hold a view that free trade in an unequal world will keep poorer countries in a subordinate position by inhibiting indigenous industrialisation and locking them into a position as dependent commodity exporters. Its supporters advocate tariff protection and state subsidies to support local firms to become competitive in world markets. From structuralists standpoint, neoliberal policies represented a new form of ‘free-trade imperialism’ imposed by rich countries.\textsuperscript{155}

Within TSMs, Marxists are influential among the other radical groups. The collapse of the communist bloc dealt a severe blow to the political influence of Marxism at the level of state policy-making, but various strands of Marxism have remained influential among activist groups. Particularly prominent within the transnational movements have been ideas that build on the analysis of Antonio Gramsci. Neo-Gramscians view the neoliberal policy revolution as a new stage in the evolution of global capitalism in which an emerging transnational capitalist class seeking to reinforce its dominance over subordinate groups. By freeing markets domestically and internationally, this class is encouraging and intensifying the worldwide spread of capitalist exploitation as a means of bolstering its social position.\textsuperscript{156}

\textsuperscript{154} Ibid., p. 78; Donatella Della Porta and Mario Diani, \textit{Social Movements: An Introduction} (Malden: Blackwell Publishing, 2006).
\textsuperscript{155} Ibid.
\textsuperscript{156} Ibid.
In addition to these traditional critics of economic liberalism, many within the TSMs are inspired by economic ideologies that were less prominent in the past. One of these is environmental activism. Transnational activists in the green movement have played a lead role in developing new critiques of neoliberal policies through their involvement with campaigns against the policies of the IMF, World Bank, and WTO as well as through such bodies as the Other Economic Summit and the International Forum on Globalisation. Their principle concern is the global spread of free markets undermining local diversity and autonomy in ways that are socially and environmentally destructive.157

The environmentalists are also seriously concerned and opposed to corporate globalisation. They have an apprehension that the interface between the new technologies, economic globalisation, and centralised corporate power may lead to an unprecedented environmental trauma at a global scale. Environmentalists argue that corporate are disregarding the environment in the rush for mega-profits and marketplace supremacy. The main ideas behind environmentalist movements are that environmental protections must be pursued before ecological devastations become inevitable. Under this rationale, developing renewable resources and curbing carbon dioxide emissions constitute essential steps in preventing depletion of the ozone and global warming. Further, environmentalists advocate protection of consumer goods that will meet the world’s needs through environmentally sustainable methods. The introduction of genetically modified foods has been highly critical among consumer advocates and environmentalist.158 Similar critiques

157 Ibid.
have also been put forward by indigenous peoples, who have emerged in important roles within transnational activist networks against neoliberalism.

Feminist movements have also emerged as prominent critics of neoliberal policies. They highlight how women often bear the brunt of the social costs associated with the introduction of free market reforms. Cutbacks to the public sector particularly in areas such as education, health care and other social service that the unpaid, predominant female sector of the economy picks up the burden. Domestic deregulation has further promoted the ‘feminisation of poverty’ by encouraging more insecure, non-union, poorly paid work in sectors of the economy where female employment is high. The introduction of free trade policies has also created similar kinds of jobs in export processing zones, which draw disproportionately on women workers, and it has often displaced female dominated subsistence agriculture in favour of male dominated export oriented farming.  

11. Conclusion

Neoliberalism has become a predominant ideology across the globe today. It is one central factor which makes globalisation work. The construction of this ideology might have been the need at a point of time suitable for some state but selling this idea across the globe to everyone is rather untenable. Therefore, the outcome of its results differs among states.

159 The term ‘feminisation of poverty’ originated in the US in the late 1970s when researchers discovered an increase in female-headed households and a higher incidence of poverty among single mothers. US data since then has continued to reveal a link between poverty and female-headed households. However, the universal applicability of the thesis that female-headed households are more likely to be poor than male-headed households has been the subject of some controversy and contention. See Robert O’ Brien and Marc Williams, Global Political Economy (New York: Palgrave Macmillan, 2013), pp. 212-13.

160 Ibid., 79. Also see Martin Hart-Landsberg, Capitalist Globalisation: Consequences, Resistance, and Alternatives (Kolkata: Granthamela, 2013), pp. 71-89
For advocates, neoliberalism is considered as an engine towards economic growth, development and prosperity while for critics, it is perceived as another promotion of Western capitalism that shatters economies and deepen poverty and inequality across the globe. It is obvious that on one hand, it has uplifted some, while on the other, it has also excluded the majority.

The problems and challenges faced by the majority of the Third World states are numerous which cannot be comparable to their Western counterpart. The majority of the populace look upon the state for development, welfare functions and also for their security. But gradually, the provisions of these are sadly diminishing, leaving it at the hands of the market and private players. Since it is impossible for private players to replace the welfare state, more and more people are excluded from its benefits and a growing sense of discontentment has grown against the state. This eventually, threatens states directly or indirectly. Thus, the outcome is severe as there is a strong linkage of neoliberal policy and destabilisation of many states in the Third World. Secondly, the existence of many powerful TNCs, MNCs and other private companies in many Third World states find its way through the policy of the state can be seen as an invasion of neoliberal policy. This also threatens many of their domestic small and large-scale industries which are not able to compete with the foreign companies. The above discussion, clearly suggests that many of the Third World states have no other alternative but to associate with this global force for survival even at the cost of their own state and society. Based on this discussion, its impact on the security of Third World States will be discussed in details in the subsequent chapters.