

THE NEOLIBERAL THEORY OF SOCIETY

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The ideological foundations of neo-liberalism

Neoliberalism presents itself as a doctrine based on the inexorable truths of modern economics. However, despite its scientific trappings, modern economics is not a scientific discipline but the rigorous elaboration of a very specific social theory, which has become so deeply embedded in western thought as to have established itself as no more than common sense, despite the fact that its fundamental assumptions are patently absurd. The foundations of modern economics, and of the ideology of neoliberalism, go back to Adam Smith and his great work, *The Wealth of Nations*. Over the past two centuries Smith's arguments have been formalised and developed with greater analytical rigour, but the fundamental assumptions underpinning neoliberalism remain those proposed by Adam Smith.

Adam Smith wrote *The Wealth of Nations* as a critique of the corrupt and self-aggrandising mercantilist state, which drew its revenues from taxing trade and licensing monopolies, which it sought to protect by maintaining an expensive military apparatus and waging costly wars. The theories which supported the state conceived of exchange as a 'zero-sum game', in which one party's gain was the other party's loss, so the maximum benefit from exchange was to be extracted by force and fraud. The fundamental idea of Smith's critique was that the 'wealth of the nation' derived not from the accumulation of wealth by the state, at the expense of its citizens and foreign powers, but from the development of the division of labour. The division of labour developed as a result of the initiative and enterprise of private individuals and would develop the more rapidly the more such individuals were free to apply their enterprise and initiative and to reap the corresponding rewards.

Smith laid the foundations of neo-liberalism with his argument that free exchange was a transaction from which both parties necessarily benefited, since nobody would voluntarily engage in an exchange from which they would emerge worse off. As Milton Friedman put it, neoliberalism rests on the 'elementary proposition that both parties to an economic transaction benefit from it, provided the transaction is bilaterally voluntary and informed' (Friedman, 1962, p. 55). Consequently, any restriction on the freedom of trade will reduce well-being by denying individuals the opportunity to improve their situation. Moreover, Smith argued, the expansion of the market permitted increasing specialisation and so the development of the division of labour. The advantages gained through exchange were not advantages gained by one party at the expense of another. Exchange was the means by which the advantages gained through the increased division of labour were shared between the two parties to the exchange. The immediate implication of Smith's argument is that any barriers to the freedom of exchange limit the development of the division of labour and so the growth of the wealth of the nation and the prosperity of each and every one of its citizens.

Adam Smith did not expect his scientific arguments to have much impact because of the political weight of the vested interests associated with the mercantilist state and the colonial system. Ironically, however, Smith's book was published in the very year, 1776, that the cornerstone of that system collapsed, with the declaration of independence of the American colonies. Smith's arguments appeared to be vindicated when American independence was followed not by the pauperisation of British merchants and the British state, but by a dynamic growth of the Atlantic trade, the new wave of prosperity being disrupted only by the long and costly French Wars. By the beginning of the nineteenth century Smith's doctrines had been transformed from a subversive attack on a parasitic state to become the ideological orthodoxy of a liberalising state (Clarke 1988, Chapter One). The role of the state was no longer to restrict and to tax trade, but to use all its powers to extend the freedom of trade within and beyond its national boundaries.

The romantic and socialist critiques of liberalism

The liberal doctrines propounded by Adam Smith came under attack from two directions. On the one hand, Smith's ideal society was one of isolated individuals, each pursuing his own self-interest. (Men pursued their self-interest, while women and children remained their dependents within the family – as Margaret Thatcher notoriously proclaimed: 'there is no such thing as society. There are individual men and women, and there are families' (Margaret Thatcher, *Woman's Own*, October 3 1987)). Smith's 'romantic' critics argued that this model ignores the most distinctive characteristics of human society – morality, religion, art and culture – that provide higher values than the individual and elevate humanity above the animal condition of seeking immediate gratification. On the other hand, experience soon showed that the benefits of free trade flowed overwhelmingly to the more economically advanced and/or politically powerful party. While free trade brought prosperity to the most advanced producers, it imposed destitution on those who were unable to compete, provoking periodic crises in which less advanced producers were bankrupted, masses of people were thrown out of work and the trade of whole nations came to a standstill. This experience gave rise to demands for state protection for small producers and for the national industry of the productively less advanced countries. Small producers saw the source of their difficulties in the power of the bankers, who denied them access to the credit they needed to sustain themselves, while capitalists of less advanced countries sought tariff protection for their national industries. For the liberal political economists, of course, periodic crises and bankruptcy were part of the healthy operation of the market, the stick that accompanied the carrots offered to the more enterprising producers. The market was not just an economic, but also a moral force, penalising the idle and incompetent and rewarding the enterprising and hard-working, for the greater good of society as a whole.

The conservative critics of liberalism sought to negate the evils of capitalism by turning the clock back to an idealised form of medieval society in which individualism was subordinated to the values and institutions of community, nation and religion. However, the dramatic increases in prosperity that capitalism offered to those who were able to benefit from its dynamism meant that such a reactionary response was politically quite unrealistic. The dominant critiques of liberalism have, therefore, been not reactionary but reformist, seeking to retain the benefits of capitalism while introducing reforms that would eliminate its negative consequences. In the nineteenth century, reformism focused on the regulation of the monetary system, since distress always appeared as a shortage of money imposed by bankers seeking to exploit their control of credit to their own advantage. In the twentieth century reformism came to focus more on the direct intervention of the state in the regulation of markets, protecting the vulnerable from the full force of competition. The central thrust of reformism, however, is always the same: to keep the 'good' parts of capitalism while eliminating the 'bad'. The liberal response to reformism has also always been the same: the good and the bad are two sides of the same coin; penalties for failure are inseparable from rewards for success. The 'evils' associated with capitalism cannot be ascribed to capitalism, but represent the failures of those who are unwilling or unable to live up to its standards. Liberalism is, therefore, not so much the science of capitalism as its theology. God cannot be blamed if sinners find themselves in hell; the way to avoid hell is to live a virtuous life.

Socialist critics of capitalism, since the early nineteenth century, have developed a more radical critique of capitalism and its legitimising ideologies, based on the critique of its silent presupposition, private property. Adam Smith's economic agents are not just isolated individuals, they are property owners, and it is because they are the owners of property that some have the power, embodied in legal right, to profit from the labour of others. Socialist critiques saw the inequalities which capitalism creates not as the result of the failure of markets, but as an expression of the unequal distribution of property, and called for the equalisation and/or the socialisation of private property and the organisation of production on the basis of common ownership, sustained by the free availability of credit.

The Marxist critique of liberalism: the social determination of private interests

The most radical critique of liberalism was developed by Karl Marx and Friedrich Engels, whose starting point was the socialist critique of private property, which Marx took one step further by pointing out that the evils of capitalism did not derive from the unequal distribution of property, but from the institution of private property itself. Capitalist private property is based on the private ownership of the products of labour, which are sold as commodities. Private property is therefore not some natural institution, inscribed in human nature and sanctioned by God, but is only the expression of a particular form of social production, in which the activity of individual producers is mediated through and regulated by the market. Moreover, capitalist private property is not so much the ownership of things as the ownership of values, expressed as a sum of money. The magnitude of this value is not given, but is determined through the social processes of exchange and can be inflated or destroyed overnight by the rise and fall of market prices.

In a capitalist society, in which the production of commodities is generalised, it is not only the products of labour that are exchanged as commodities, but the capacity to labour itself. The great mass of the population do not have the means to engage in independent production, but are compelled to sell their capacity to labour to a small minority of capitalists who have a sufficient reserve of money to buy the labour power and means of production required to engage in production on a large scale. As the owners of all of the means of production, the capitalists are the owners of the whole product, which they sell in the market. The amount of profit that is appropriated by the capitalists depends on their ability to induce or compel those they have employed to produce commodities that can be sold for a greater sum of money than they had originally laid out for their production. In this sense, the source of profit is the surplus labour, over and above that required to cover the subsistence of their employees, which the capitalists are able to extract from their labour force. This is the insight that is captured in Marx's labour theory of value and his theory of surplus value (Clarke, 1991, Chapter Four).

Capitalist private property is quite different from personal property in such things as household goods. It is social property, the means and products of social production, which have been privately appropriated. Moreover, it is his or her ownership, or lack of ownership, of property that determines the participation of the individual in society. The members of a capitalist society are not private individuals and their families, they are individuals who are already defined as members of particular social classes, on the basis of the character and scale of the property that they own, which is only an expression of the mode of their participation in social production and access to their essential means of subsistence. In this sense we have to invert Margaret Thatcher's dictum: 'There is no such thing as the individual, there is only society and the socially determined individuals who participate in it' or, as Marx put it,

private interest is itself already a socially determined interest, which can be achieved only within the conditions laid down by society and with the means provided by society; hence it is bound to the reproduction of these conditions and means. It is the interest of private persons; but its *content* as well as the *form* and means of its realisation, is given by social conditions independently of all (*Grundrisse*, p. 156, my emphasis).

In a critique of the 'market socialists', Marx argued that even if society started with an equalisation of property, market processes would necessarily give rise to inequality and a polarisation of wealth and poverty as money accumulated in the hands of a minority, while the majority lost the means to earn their own living and were forced to labour for others. Thenceforward, the minority would further accumulate their capital on the basis of their appropriation of the unpaid labour of the majority, so that the polarisation of wealth and poverty would be cumulative. The unequal distribution of property is not a distortion of the formal equality of the market, but is its necessary presupposition and its inevitable consequence. The

great mass of the population earn only enough to secure their own subsistence, with no prospect of accumulating enough wealth to survive as independent producers, and so are condemned to a life of wage labour. The mass of capitalists, meanwhile, regularly augment their capital from the profits obtained from realising the products of the surplus labour of their employees, and the more surplus labour they are able to extract, the greater will be that profit. The inevitable result of generalised commodity production is therefore the polarisation of wealth and poverty, the reproduction of inequality and the exploitation of the mass of the population on an increasing scale.

Of course, class identity is not the only determinant of the life experience and life prospects of the members of society, although it is inevitably the most fundamental determinant. The fate of those condemned to work for a wage is determined by their competition in the labour market. Those with scarce skills may be able to earn significantly more and enjoy more favourable working conditions than those with skills that are not in short supply, although such privileges are always provisional, constantly threatened by changes in production and labour market conditions. Those who are unable to meet the demands of capital, by reason of age or infirmity or the lack of appropriate skills, will be condemned to unemployment and dependence for their subsistence on others. Not all capitalists prosper. Small capitalists may be able to earn only enough to meet their own subsistence needs and so be unable to accumulate capital. Smaller and less successful capitalists may fall by the wayside and join the ranks of the working class. The working class and the capitalist class are, therefore, differentiated, but such differentiation does not in any way undermine the fundamental class character of capitalist society.

Similarly, individual capitalists and workers may not identify themselves subjectively as members of one or the other class. Although their social identity is defined objectively by their class membership, they participate in society and relate to one another as individuals with a whole range of social characteristics. The worker depends for his or her wages and for the security of his or her employment on his or her particular skills and on the continued prosperity of his or her employer. The worker may, therefore, identify his or her interests not with other workers, or the working class as a whole, but with his or her trade, employer, branch of production or the interest of 'the nation' in competition with other nations. The capitalist depends on his ability to compete with other capitalists and may secure advantages in such competition through the exercise of monopoly powers or through fiscal privileges and state regulations. The capitalist may, therefore, not identify his interests with those of the capitalist class as a whole, but with the competitive interests of his own enterprise, his industry or his nation state. The capitalist similarly depends on his ability to harness the initiative and commitment of his employees, which is best secured by providing relatively favourable wages and working conditions, which helps to foster the identification of employee and employer. Finally, however much social identity might be underpinned by the perception of economic interests, it may be overlain and even dominated by other, cultural and political, sources of identification. But, whatever may be the basis of the subjective identification of capitalists and workers, this does not in any way undermine the fundamental objective character of their opposing class interests and the objective determination of their life experience and prospects by their class position.

The dynamics of the capitalist system of production

Adam Smith had presumed that 'consumption is the sole end and purpose of all production', a maxim that he claimed 'is so self-evident that it would be absurd to attempt to prove it' (Adam Smith, 1910, vol. II, p. 155), and this has always been a pillar of the liberal defence of capitalism. But even the most superficial understanding of capitalism suffices to show that, however self-evident such a maxim might be as a characterisation of rational human endeavour, its absurdity in a capitalist society is self-evident testimony to the irrationality of capitalism. Marx and Engels showed that the sole purpose of capitalist production is not the production of

things to meet human need, but the constant thirst for profits to maintain the accumulation of capital. Of course, the capitalist has to find an outlet for his products, selling them to other capitalists as means of production or to workers and capitalists as means of consumption, but far from being the purpose of production, the need to sell the product is for the capitalist only a barrier to the further accumulation of capital.

The thirst for profit is not a matter of the free choice of capitalists, but is imposed on them as a condition of their survival. In order to increase, or even to maintain, their profits, and so to maintain their status as capitalists, capitalists have constantly to innovate and invest in order to reduce their production costs. The capitalist who can produce more cheaply than his competitors can earn a higher rate of profit and drive his competitors from the market, so every capitalist has to run ahead in order to stand still.

Competition not only forces capitalists to innovate and invest in order to increase the productivity of labour and develop new products, it also compels capitalists to seek constantly to force down wages, intensify labour and reduce the number employed. The less technologically advanced capitalist, in the face of competition from the more advanced, can only maintain his profits by extending the working day, reducing wages and intensifying the labour of his employees, laying off those who are thus made surplus to requirements. The more advanced capitalist may have the capacity to provide more favourable working conditions, but he is intent on making the best of his advantage before his competitors can catch up, so even he will intensify labour and reduce employment to the greatest degree possible, even if he compensates his remaining employees with higher wages. The inherent tendency of capitalist accumulation, imposed on every capitalist by the pressure of competition, is therefore to the intensification of labour, the extension of the working day and the redundancy of labour. The result for the working class is an increasing insecurity of employment in response to the ever-changing demands of capital. The intensification of the demands of the capital throws more and more people into the ranks of the unemployable. The accumulation of capital necessarily leads to the polarisation of overwork and unemployment, prosperity and destitution. This Marx characterised as the 'absolute general law of capitalist accumulation' (Marx, *Capital*, Volume One, Chapter XXV).

The transformation of methods of production to increase the productivity of labour, the intensification of labour and the extension of the working day are all imposed on capitalists by the pressure of competition. These means of overcoming competitive pressure lead to a constant increase in the quantity of commodities produced, the overproduction of which in turn intensifies the competitive pressure, which turns out to be merely the form in which overproduction confronts each individual capitalist. The market is, therefore, by no means the beneficent sphere in which social production is subordinated to social need as consumers exercise their freedom of choice; it is the arena in which capitalists desperately seek to dispose of their surplus product at a profit. Capitalist competition is not a *deus ex machina*, but the expression of the constant tendency to overproduction which presents itself as a barrier to the further accumulation of capital, a barrier which is only overcome through the creation of new needs, the intensification of labour, the destruction of productive capacity and the redundancy of labour on a global scale (Clarke, 1994). Far from responding to the needs of consumers, capitalism thrives on the constant creation of unsatisfied needs; far from generalising prosperity, capitalism generalises want; far from relieving the burden of labour, capitalism constantly intensifies labour, to the extent that a growing proportion of the population – the young, the old, the infirm, those with inadequate skills – are unable to meet the demands of capital and are condemned to destitution. The market is an instrument of 'natural selection' that judges not on the basis of an individual's ability to contribute to society, but on the basis of the individual's ability to contribute to the production of surplus value and the accumulation of capital. This is the moral law that is expressed in the platitudes of neo-liberalism.

Neo-liberals contest Marx's analysis of the 'absolute general law of capitalist accumulation' on the grounds that the living standards of the employed population have steadily risen on the basis of capitalist accumulation, thereby undermining the 'pauperisation thesis' that is often falsely attributed to Marx. However, the validity of the law at the global level is 'so self-evident that it would be absurd to attempt to prove it'. The accumulation of capital has been concentrated in the metropolitan centres of accumulation, where the living standards of the employed have certainly increased, but the inherent tendency to overproduction has led capitalism from its inception to spread its tentacles worldwide, developing the world market in the attempt to dispose of its surplus product. Indigenous producers in the peripheral regions have confronted global capitalist competition in the form of falling prices for their products, which has led to falling incomes of petty producers and the mass destruction of indigenous capitalists, while those capitalists who remain have only been able to survive by forcing down wages and intensifying labour. The accumulation of capital in the metropolitan centres has only been sustained by the pauperisation of the rest of the world, leading to a polarisation of wealth and poverty, overwork and unemployment, on a global scale.

Even in the metropolitan centres of accumulation the inherent tendencies of capitalist accumulation are undeniable. While real wages may have risen, the creation of new needs by capital has meant that the socially determined subsistence needs of the population have risen more rapidly, forcing an ever growing proportion of the population to seek work to augment the household income in the attempt to meet those needs. At the same time, a growing proportion of the population is unable to meet the ever-increasing employment demands of capital, while those in employment face the ever-growing threat of losing their jobs. Those who are not able to meet their subsistence needs through waged employment are forced into dependence on others, either other members of their families or households or through collective provision from charitable or state institutions. State provision of pension and benefit incomes to those unable to work has provided some security for the victims of capitalist accumulation, but this has not been through the beneficence of capital, it has been won through the trade union and political struggles of the working class. Moreover, the mounting cost of collective provision to counter the tendencies of capitalist accumulation has given force to the neo-liberal attempt to replace collective provision with private provision through insurance-based systems, which provides yet another channel through which capital can intensify the exploitation of the mass of the working population by intensifying and profiting from their fear of misfortune.

For Marx and Engels capitalism was not entirely evil. It has undoubtedly developed the productive capacity of society to a hitherto undreamed of degree. But it has done so at enormous human (and, we can add today, environmental) cost. To this extent Marx and Engels agreed with the liberals in their critique of reformism: the costs of capitalism are inseparable from its benefits. Unreconstructed liberals believe that every individual has the freedom to choose the fate that will befall him or her, so the judgement of the market is a moral judgement. Hard work, foresight, initiative and enterprise will be rewarded, while the idle and lethargic will suffer their just punishment. Those liberals who recognise that the judgement of the market may not display such justice, nevertheless believe that the benefits of capitalism outweigh its costs, and that the costs can be ameliorated through compensatory mechanisms, a 'social safety net', through which the beneficiaries can compensate the victims. Such moderate liberals do not believe that capitalism is perfect, but they do believe that it is the best of all possible worlds. Again in the words of Margaret Thatcher, 'there is no alternative'.

Marx and Engels believed that the alternative was a completely different kind of society in which social production is under the self-conscious democratic control of the freely associated direct producers, in which production is organised on the principle 'from each according to his [her] ability, to each according to his [her] needs' (Marx, 1962, p. 24). They believed that capitalism was creating the social and material conditions for such a society by socialising production and by developing the productive forces to the extent that all human needs could be satisfied within a

democratically organised society, although they certainly underestimated the extent to which capitalism constantly creates new unsatisfied needs, and so demands a further development of the productive forces to meet them. The plausibility of such an alternative has been severely dented by the experience of the regimes which have proclaimed themselves Marxist, the Soviet Union and China, which have offered only a parody of the Marxist vision, building a communist society on the basis of undeveloped forces of production and with social production under the bureaucratic control of a militarised authoritarian state.

The question of whether or not the Marxist vision can be realised is not one that is settled by the experience of the Soviet Union and China, nor is it one that can be resolved theoretically. It is not a theoretical but a practical question, and it is not a question that is posed by Marx and Engels, but a question that is posed to humanity by capitalism. Social development has been dominated by the accumulation of capital for less than two hundred years of human history, although accumulation has nevertheless been regularly interrupted by periodic crises and massively destructive armed conflicts. The destruction of the depression of the nineteen thirties and the Second World War prepared the way for a renewal of capitalist accumulation that has persisted, sometimes fitfully, for more than fifty years as accumulation has been sustained by the expansion of capitalism on a world scale. It is only in the last decade that capitalist domination has reached its geographical limits, extending to every corner of the globe, so that in order to overcome the barriers to capitalist accumulation, capital now has to turn in upon itself. The fact that capitalism has not yet destroyed humanity, that it has not yet destroyed the environment, does not mean that it will not do so in the not too distant future, or that its expansion will continue to proceed unchecked by the renewed massive destruction of capital through global crisis or war. The unbridled expansion of capitalism is the future for humanity that neoliberalism celebrates. The Marxist critique echoes the response of millions, even billions, of people across the world: 'There must be an alternative'.

The neoliberal project

Neoliberalism represents a reassertion of the fundamental beliefs of the liberal political economy that was the dominant political ideology of the nineteenth century, above all in Britain and the United States. The arguments of political economy were based on intuition and assertion rather than on rigorous analysis, but their strength rested on their ideological appeal rather than on their analytical rigour. The ideological appeal of liberalism waned towards the end of the nineteenth century with the growing demands for 'social reform' precipitated by the rise of the organised working class and a growing awareness of the 'social problems' that the development of capitalism had thrown up in its wake. The dominant strands of economics no longer rejected demands for social reform on the basis of the primacy of the market, but sought instead to identify and delimit the scope of reform by identifying the 'market imperfections' that led the reality of the market economy to fall short of the liberal ideal. The liberal model of society remained the ideal, but it was recognised that this ideal could not be attained by the power of the market alone, which would have to be supplemented by the guiding hand of the state. Piecemeal social reform through the first half of the twentieth century was replaced after the War by the more systematic reformism of the 'Keynesian welfare state', which was based on the systematic application of fiscal policy as a means of redistribution and macroeconomic regulation to remedy the deficiencies of the market.

Neoliberalism emerged as an ideological response to the crisis of the 'Keynesian welfare state', which was precipitated by the generalised capitalist crisis associated with the end of the postwar reconstruction boom and was brought to a head by the escalating cost of the US war against Vietnam at the beginning of the 1970s (Clarke 1988, Chapters Ten, Eleven). The crisis manifested itself in a slowing of the pace of global capitalist accumulation, alongside escalating inflation and a growing difficulty of financing government budget deficits, which forced governments to impose restrictive monetary policies and cut state expenditure plans. What was

seen as a mark of the abject failure of Keynesianism was acclaimed as a positive virtue by neoliberals, who reasserted the traditional liberal dogma of the purgative powers of the market amid the recession of the early 1980s, a reassertion that appeared to be justified by the subsequently resumed expansion of global capital on the basis of the further liberalisation of the world market.

Neoliberalism owes its strength to its ideological appeal, but neoliberalism is not merely an ideology, it purports to rest on the scientific foundations of modern liberal economics. Modern neoliberal economics is no less dogmatic than its nineteenth century predecessor in resting on a set of simplistic assertions about the character of the market and the behaviour of market actors. The economist critics of neoliberalism have repeatedly exposed how restrictive and unrealistic are the assumptions on which the neoliberal model is based. However, to argue that the neoliberal model is unrealistic is somewhat to miss the point, since the neoliberal model does not purport so much to describe the world as it is, but the world as it should be. The point for neoliberalism is not to make a model that is more adequate to the real world, but to make the real world more adequate to its model. This is not merely an intellectual fantasy, it is a very real political project, to realise which neoliberalism has conquered the commanding heights of global intellectual, political and economic power, all of which are mobilised to realise the neoliberal project of subjecting the whole world's population to the judgement and morality of capital.

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