

## **EMBEDDING NEOLIBERALISM: THE EVOLUTION OF A HEGEMONIC PARADIGM**

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### I. INTRODUCTION

Since the 1980s the concept of neoliberalism has been at the forefront of debate in both international political economy and domestic politics. Originally a label for a new form of nationally rooted transatlantic conservatism in the late 1970s and 1980s, neoliberalism was at first embodied primarily in the politics of Prime Minister Margaret Thatcher and the Conservative Party in the United Kingdom (UK) and of President Ronald Reagan and the Republican Party in the United States (US). It has often been seen as a revival of what has sometimes been called “classical liberalism” or “19<sup>th</sup> century liberalism” — i.e., a return to purer *laissez faire* principles and the ideology (and economic theory) of the self-regulating market. However, this is an oversimplification. Neoliberalism in its varieties, “free market conservative, neoliberal structuralist and neoliberal regulationist,” paradoxically includes an active role for the state in designing, promoting and guaranteeing the free and efficient operation of the market (Plehwe, Walpen and Neunhöffer, 2006) — a kind of imposed *laissez faire* somewhat analogous to Rousseau’s image of people being “forced to be free.”

Although this form of neoliberalism arose originally in the specific conditions of the British and American political economies at the time and was intertwined with the new assertive nationalism represented by

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its main advocates — in other words it originally appeared to be primarily a nation–state–level phenomenon — its rise also coincided with structurally transformative transnational and globalizing developments. These included pressures for trade liberalization, the shift of the international monetary system from fixed to floating currencies, the explosion of international capital mobility and integration of global financial markets, the expansion of multinational corporations, the growth of transnational production chains and network forms of business organization, vast technological changes especially in information and communications technologies, and the like.

In this context, the scope and significance of neoliberalism has been transformed not merely into the political and ideological manifestation of economic structural change and public policy innovation at national level, but also into the political driving force behind globalization itself. Supporters and critics of globalization alike either attribute neoliberalism with promoting economic growth and a more efficient form of transnationally open, free market capitalism, on the one hand, or attack it for justifying new forms of capitalist oppression, blinding elites and masses alike to the worsening inequalities and crisis tendencies engendered by globalization (Klein, 2007), on the other. Neoliberalism has increasingly come to frame intellectual and political debates in recent years as economic doctrine, public policy agenda, descriptive framework, analytical paradigm and social discourse. It has become deeply embedded in 21<sup>st</sup> century institutional behavior, political processes and understandings of socio economic “realities.”

In this way it has superseded “embedded liberalism” (Ruggie, 1982) as the common sense and key “shared mental model” (Roy, Denzau and Willett, 2007) of the evolving “art of governmentality” in a globalizing world (Burchell, Gordon and Miller, 1991; Cerny, 2008a). Embedded neoliberalism has become the common sense of the 21<sup>st</sup> century. Furthermore, however, I argue in this article that the embedding of neoliberal discourse and practice is in turn transforming neoliberalism

from a relatively closed doctrine associated with particular individuals, governments, interest groups, political parties, international organizations and even academic schools of thought like the Mont Pèlerin Society (Plehwe, Walpen and Neunhöffer, 2006), into a hegemonic concept that is seeping into and co-opting the whole spectrum of political life. In this process the concept itself has been undergoing considerable evolution, especially in two main ways.

On the one hand, neoliberalism is not a seamless web doctrinally and discursively. It is not only a contested concept in theoretical terms but also a highly internally differentiated concept, made up of a range of linked but discrete subcategories and dimensions. These subcategories and dimensions, which will be covered in more detail later in this article, can be manipulated and orchestrated in different ways by political actors, leading to a much larger spectrum of strategic options, policy prescriptions and *de facto* practices than the original conservative version of neoliberalism would suggest— including what are here called “regulatory,” “managed” and “social” neoliberalism.

On the other hand, the global political process itself is opening up to a much wider range of political, economic and social actors (Cerny, 2000b). These include economic actors involved in transnationalizing firms, market structures and networks, along with business school academics concerned with developing global strategies; actors in transnational organizations; state actors in both traditional policymaking bureaucracies and “transgovernmental networks;” cross-border ethnic and religious groups; workers in high technology sectors; ordinary people linked through the internet who do not need to move physically to participate in transnational society; and consumers whose preferences are for transnationally-produced goods and assets. All are co-opting neoliberal discourse in a variety of ways suited to their political resources, alliances, strategies and tactics — manipulating and transforming it to fit, justify and legitimate their own daily actions and

long-term goals (Harvey, 2005). Neoliberalism is increasingly what actors make of it.

This article will first examine neoliberalism as a contested concept; then trace how it has come to be embedded within the globalization process; deconstruct the concept into its different subcategories and dimensions; identify some of the key actors who have co-opted neoliberalism into their own frames of references, strategies and tactics; and conclude by suggesting some of the forms that arguably might be expected to characterize its evolution in the medium term.

## II. NEOLIBERALISM AS A CONTESTED CONCEPT

Neoliberalism is a recent concept and is open to several often conflicting interpretations. Its widespread adoption reflects the fashion that appeared in the late Cold War period for affixing the prefix “neo” to well-known political labels. This trend ostensibly signified that outdated ideological frameworks and/or historical paradigms were being, if not transcended, at least adapted and reshaped for a late modern or postmodern world. In the study of politics and international relations, the other best known examples have been neoconservatism (Mann, 2004), neorealism (Waltz, 1979) and neomedievalism (Cerny, 1998). Furthermore, in a world where the very concepts of international relations and world politics are becoming more fluid and fungible, where the “levels of analysis distinction” (Hollis and Smith, 1990) between international and domestic politics — sometimes called the “inside/outside distinction” — is being challenged and where debates on globalization are increasingly framing our understanding of world politics, neoliberalism has moved centre stage in an attempt to identify, locate and define the character of politics and political ideology in the 21<sup>st</sup> century.

To clear the ground, we will briefly examine some existing uses of the words liberalism and neoliberalism, including American-style liberalism,

“neoliberalism” in International Relations of 1980s and 1990s, and “economic liberalism/neoliberalism” in International Political Economy.

*The Two Meanings of Liberalism in The United States and Europe*

It is first important to clarify how neoliberalism fits into the traditional spectrum of political doctrines. Neoliberalism in the study of International Relations and International Political Economy has taken on two primary distinct — and partly contradictory — definitions, to a large extent reflecting the historical ambiguity of its main precursor, “liberalism.” Liberalism is itself a complex mixture of meanings, reflecting the ambiguity of its central referent — the notion of freedom and, in particular, the centrality of the individual — rather than a more holistic conception of society. Liberalism can (and originally did) imply free-thinking, indicating that a liberal is of a critical bent of mind, as in Enlightenment philosophies. It can also refer to support for civil freedoms and human rights, i.e. the liberties that were central to the Enlightenment. Furthermore, it can mean the necessity or desirability of free and/or liberal democratic political institutions, rooted in individual consent rather than collectivist ideologies. Freedom of religion, and indeed a critical attitude towards the social role of religion, is also a major issue for liberals, reflected in the demand for the separation of church and state. Finally, economic liberalism is traditionally associated with market capitalism, implying an uneasy and fungible combination of *laissez faire* economics, especially the protection of private property, and pro-competitive economic regulation.

Clearly there has been much room for conflict amongst these meanings depending on which dimension or dimensions are seen as taking philosophical and practical priority. For example, the rights to life, liberty and property, as in the 17<sup>th</sup> century political philosophy of John Locke, can often conflict with each other in practice. In continental Europe, where the notion of liberalism has tended to retain much of this fundamentally anti-statist meaning, it is seen mainly as a political

philosophy of the capitalist Right — although its individualist core is obviously in conflict with more organicist right-wing ideologies such as elitism, certain forms of social Catholicism, or fascism in the late 19th and early 20th centuries (de Ruggiero, 1927). In the US in particular, such liberalism is often referred to as “19th century liberalism” or “classical liberalism” and indeed has much in common with what is called “conservatism” in the Anglo-Saxon world.

This contrasts with how the term liberalism itself has been used in the US since the early 20th century. American “liberalism,” paradoxically, has become a label for the moderate centre-left, derived by writers such as Walter Lippmann and political actors like Woodrow Wilson from the 19th century Progressive tradition in the US but tempered to be more inclusive and mainstream (Lippmann, 1982). In this latter sense, American-style liberalism came to be somewhat analogous to moderate social democratic views in continental Europe; however, in Europe the development of social democratic ideology and party identification was sufficiently strong to resist being subsumed into liberalism, which as a label was applied mainly to small European parties of the centre-right.

Today, American conservatives and neoconservatives, following presidential candidate (and later President) George H.W. Bush in the 1988 election campaign, while acknowledging that their own approach is rooted in “19th century liberalism,” have demonized liberalism as the “L-word” — ostensibly entailing a dogmatic left-wing approach and denying it the center ground sought by Lippmann, Wilson, and their liberal successors like Presidents Franklin Delano Roosevelt and John F. Kennedy. In Australia, this center-left version of liberalism is referred to as “social liberalism.” In the UK, liberalism, at least in the approach of the Liberal Democratic Party (formerly the Liberal Party) is seen as trying to take the best elements of both conservatism and social democracy while emphasizing individualism. Identifying the political content of liberalism is thus problematic; it means what contrasting traditions say it means. The same, as we will argue below, can be said for neoliberalism today.

*Liberal Internationalism and Neoliberal Institutionalism in International Relations*

In international relations and international political economy, liberalism — and, today, neoliberalism — can thus also be seen as having two distinct meanings, meanings that are closely tied up with the distinction between “19<sup>th</sup> century liberalism” and “social liberalism” discussed above. The first of these derives from the quasi-idealist tradition of “liberal internationalism” associated with the legacy of Woodrow Wilson and the League of Nations. Liberal internationalism involved the construction of international institutions made up of sovereign states, the provision of “collective security” and the expansion of international law along relatively liberal lines. The United Nations Universal Declaration of Human Rights is seen as a key document in this tradition, along with UN sponsorship of development, health, food and housing programs.

In particular, the establishment of the Bretton Woods system of international economic institutions at the end of the Second World War is also seen to represent international economic liberalism through the promotion and regulation of increasingly open international trade (through the General Agreement on Tariffs and Trade (GATT) and now the World Trade Organization (WTO)), an international monetary system (through the International Monetary Fund (IMF)) and economic development (through the International Bank for Reconstruction and Development, long known as the World Bank (WB)). John Gerard Ruggie called the postwar system one of “embedded liberalism;” however, his analysis went much further, linking international economic liberalism with American-style domestic liberalism (or European-style social democracy) through Keynesian macroeconomic policies, full employment, and the welfare state (Ruggie, 1982).

In this context, Robert O. Keohane has referred to “neoliberal institutionalism” (Keohane, 1984, 1989; Baldwin, 1993). This usage of neoliberalism has until recently been prevalent in the study of International Relations and International Political Economy in the US.

Neoliberal institutionalism was a concept developed out of “regime theory.” It posited that the development of the international system since the Second World War was characterized primarily by a broad but rather *ad hoc* proliferation of international regimes, whether of the broad kind discussed by Ruggie (the “regime of embedded liberalism”) or the narrow sense of specific, quasi-autonomous problem-solving institutions dealing with particular issue areas (the IMF, the GATT, the International Labour Organization (ILO), specialized organizations for the law of the sea, shipping, intellectual property, etc.).

This definition of neoliberalism was constructed in contradistinction to the huge influence especially in the US of the “neorealism” of Kenneth Waltz, which had brought the autonomous nation-state — seeking power and motivated primarily by relative gains rather than absolute gains — back to the fore as the only genuine “unit actor” in an “anarchic” international system (Waltz, 1979; Keohane, 1986). Neorealism in turn gave rise to “hegemonic stability theory,” which, following the collective action theories of Mancur Olson, argued that in an anarchic system — where “self-help,” defection and free-riding were the default positions and international cooperation a fragile reed — only an overwhelmingly well-resourced great power or superpower could provide the public goods of international stability and security by paying the costs of those goods unilaterally and not depending on other actors to contribute key resources.

Keohane, in contrast, argued not only that international regimes had proliferated from the 1940s to the 1980s, but also that their widening scope of influence and control over increasingly significant and salient issue areas was giving them institutional autonomy and engendering habits of intergovernmental cooperation that were refocusing international cooperation on absolute gains and reducing the emphasis on neorealists’ relative gains. Indeed, in this context there was no longer a systemic or structural imperative for hegemony; neoliberal institutionalism was taking over “after hegemony” (Keohane, 1984).

Nevertheless, Keohane's analysis still considered international regimes and neoliberal institutionalism to be intergovernmental constructs that to a large extent maintained the levels of analysis or inside/outside distinction between domestic and international politics. Neoliberal regimes in this sense were not a substitute for liberal domestic politics but were broadly in the tradition of liberal internationalism tempered by a certain amount of neorealism. Andrew Moravcsik took this analysis one step further by suggesting a "liberal theory of state preferences" that incorporated a wider range of domestic actors — and therefore international and transnationally-linked domestic interests — into state behavior (Moravcsik, 1997). Such an approach would accord state actors a wider repertoire of cooperative options but without undermining the fundamentally state-centric character of international politics.

In this sense, both neoliberalism and neorealism can be contrasted with approaches that posit fundamental structural change in world politics that would erode the domestic/international or inside/outside distinction, such as globalization (Lipson and Cohen, 1999). Despite some common reference points, especially to the growing interaction between international regimes, multi-level governance and "global civil society," neoliberalism in Keohane's sense is fundamentally distinct from, even opposed to, the concept of neoliberalism as a hegemonic, globalizing political doctrine and discourse cutting across the inside/outside divide.

### *Economic Neoliberalism in International Political Economy*

The third use of the term neoliberal is thus quite different from Keohane's and is derived from the continental European conception of liberalism, i.e. "19<sup>th</sup> century" or "classical" liberalism. This usage focuses primarily on *economic* liberalism/neoliberalism, but it also has much wider political and social implications. It has also become more widely accepted and has increasingly supplanted "neoliberal institutionalism" as the main way the word is used, not only in academic, but also in

policymaking and journalistic circles. The key to this way of thinking about neoliberalism is the assertion that the economic market should form the core institution or ordering/organizing mechanism of modern-capitalist-societies, and that both domestic and international politics are — and should be — increasingly concerned not only with helping markets to work freely (and therefore, in theory, efficiently) but also with making markets work well through pro-competitive regulation, preventing and/or compensating for market failure, etc. In this sense, neoliberalism, like classical liberalism before it, is essentially a normative/prescriptive doctrine and discourse, a framework for formulating and implementing public policy at both the international and domestic levels. Unlike classical liberalism, however, it is not assumed that markets necessarily work in an efficient, spontaneous and automatic — self-regulating — manner unless they are strongly embedded in pro-market rules, institutions and politics.

This overriding set of policy goals has several component parts, but those parts have a common *normative* logic. In the first place, it is seen as necessary to design and establish institutions and practices that are market-based and market-led, both domestically and globally. This objective is equally important in more developed capitalist countries — where social democracy and American-style liberalism are believed to have distorted markets ever since the New Deal and to have led to “creeping socialism” and, in particular, stagflation and recession in the 1970s — and in so-called “transition” (i.e. ex-communist) states as well as the developing world, where doctrines such as Import Substitution Industrialization (ISI) by both left-wing and right-wing governments from the 1950s to the 1980s led to hyperinflation, over-bureaucratization and international indebtedness (Kaldor, Holden and Falk, 1989; Kemp, 1983).

Second, it is important to instill a culture of individualistic, market-orientated behavior in people of all social classes, counteracting the “dependency culture” of the Keynesian welfare state that was blamed for the slump of the 1970s, for example by “ending welfare as we know it”

(Bill Clinton) and deregulating the labor market — what Bob Jessop calls the “Schumpeterian workfare state” (Jessop, 2002). International regimes, too, pursued similar goals, for example in the so-called “Washington Consensus” of the 1980s and 1990s (Williamson, 1990). Governments themselves and international institutions too, it was argued, should be imbued with market-friendly attitudes and practices — whether “reinventing government,” privatizing social and public services, promoting international competitiveness, deregulating and liberalizing specific markets or sectors, and/or using international aid and regulation to promote marketization through “conditionality”. The concept of “governance” should replace that of “government.”

Third, barriers to international trade and capital flows should be progressively dismantled. The most efficient markets, in theory, are those with the largest numbers of buyers and sellers, so that an “efficiency price” can be established that will “clear the market” (Williamson, 1975; Lindblom, 1978). (Clearing the market means that all the goods offered for sale will be purchased at a mutually acceptable price.) In theory, then, the most efficient markets ought to be world markets, those with the most players. In this new era of globalization, 19<sup>th</sup> century economic liberalism in its neoliberal guise has become the natural normative point of reference for classical and neoclassical economic theorists, public policymakers, and informed publics alike. Its political and social ramifications are huge, as were those of British economic liberalism in the middle of the 19<sup>th</sup> century with the shift to freer trade and the Gold Standard.

### III. AN “EMBEDDED NEOLIBERAL CONSENSUS”?

This third strand of economic neoliberalism developed out of the return to fashion in academic economics of the theories of free market economists like Milton Friedman in the US and intellectual policymakers like Sir Keith Joseph in the UK (Joseph, 1974), and came to dominate the domestic “conservative” (i.e. neoliberal) policy priorities of successful

politicians such as Margaret Thatcher and Ronald Reagan. But the real springboard for its newfound intellectual and political success was the experience of crisis in the post-Second World War economic order, both domestic and international, especially in the recessionary era of the 1970s.

*Neoliberalism, Crisis and Change in the World Political Economy*

The crisis in the 1970s had several dimensions. The most important ones for our purposes include the following:

1. *The “fiscal crisis of the state”* (O’Connor, 2001), in which the budgetary costs of social policies, public services, nationalized industries and bureaucracies were seen to grow faster than the tax base. This dimension of the crisis at first led to increasing attempts by governments in developed capitalist states to increase provision for those services through a combination of deficit spending and inflation, which fed into a vicious circle of budgetary crisis and an endemic inflationary spiral, especially in the UK. In a second phase, conservative (neoliberal) politicians, economists and public policymakers increasingly proposed reducing tax rates and cutting back government services with the aim, not only of re-imposing budgetary discipline, but also of producing additional economic growth that would result in higher tax payments despite lower rates — so-called “supply-side” policies.
2. *The partial breakdown of “social partnership” or “neocorporatist” arrangements* — usually tripartite, state-supported institutions or negotiating fora bringing together management, labour and bureaucrats — that had become increasingly important in the 1960s for negotiating wages, working conditions, hiring and firing of workers, etc. (Lehmbruch and Schmitter, 1982; Goldthorpe, 1985; Eichengreen, 2006). The “stickiness” of wages and the slowdown in investment attributed to these arrangements were blamed, especially

in Britain and the US, but elsewhere too, for economic stagnation (Middlemas, 1979).

3. *International and domestic economic conditions*, raising fears of a vicious circle of economic stagnation and decline. These conditions ranged from the reduction in the growth rate of world trade (and an actual brief decrease in 1982) along with an alarming rise in the “new protectionism,” mainly through the introduction of “non-tariff barriers,” on the one hand, to increasing “stagflation,” or simultaneous stagnation and inflation, on the other . There was a fear of a return to the vicious circle of the sort of “beggar-thy-neighbor” protectionist and domesticist policies that were seen to have deepened the Great Depression of the 1930s.
4. *The breakdown of that part of the Bretton Woods system concerned with maintaining the “adjustable peg” system of managed exchange rates* known as the “dollar standard” or the “Gold Exchange Standard” — often, at the time, confused with the wider system of Bretton Woods institutions themselves (these survived and retooled). Endemic exchange rate crises that had first led to the end of the dollar’s link to gold (1971–73) were dramatically exacerbated by the Yom Kippur War of 1973–74 and the fourfold rise of oil prices that resulted, starting a process that led to further rises in inflation, interest rates and Third World debt that regularly erupted during the 1970s and early 1980s, entrenching the deepest recession since the 1930s (Strange, 1984).

#### *New Conflicts and the Paradoxical Emergence of a Neoliberal Political Consensus*

The experience of the recession of the 1970s at first led to various country-specific crises, differing somewhat from and region to region, of what has been called the “postwar consensus” around domestic Keynesianism and/or “indicative planning” and the welfare state. Once Keynesian macroeconomic fine tuning had failed to prevent stagflation

and neocorporatism came to be seen as a major source of rigidity preventing businesses from responding to these crises, major sections of the postwar coalitions in most developed capitalist countries began to defect. The ideological and cultural glue that the “long boom” from the early 1950s to the early 1970s had reinforced, accepted even by most conservative parties in the 1950s, 1960s and early 1970s, dissolved. Various middle class groups and even fractions of the working class began to vote for parties and leaders promoting the new brand of economically liberal “conservatism” — what would come to be called neoliberalism.

At the same time, however, attempts to shift from “organized capitalism” to neoliberalism in Germany, Austria, Scandinavia and elsewhere were mixed, given the historical “path development” of political institutions and the variation of political coalitions and economic structures in different advanced industrial countries, reinforcing long-divergent patterns among different “varieties of capitalism” (Hall and Soskice, 2001). However, academic and political debates have raged over the significance of those variations in the context of increasing transnationalization and complex interdependence (Keohane and Nye, 2000; Hülsemeyer, 2003; Soederberg, Menz and Cerny, 2005), including extensive debates on the fate of the welfare state (Offe, 1984; Pierson, 1994; Clayton and Pontusson, 1998; Rhodes, 2007).

Nevertheless, neoliberalism made increasing inroads into the politics and economic policies of a range of countries and across the political and sociological spectrum. In the key election of 1979 that brought Margaret Thatcher to power, 42% of trade unionists in Britain voted Conservative, while in the US the “Reagan Democrats” also became part of the new neoliberal consensus. In the 1980s and 1990s, both the British Labour Party and the Democratic Party in the US moved distinctly to the right in order to recapture the center ground, with labels like “New Labour,” the “New Democrats” and the “Third Way”. The failure of much of the supposedly “socialist” program of French President François Mitterrand,

elected in 1981, to pull France out of the slump led to his administration partly reversing course and then giving way to “cohabitation” with rhetorically neoliberal conservatives, although much of French statism has remained (Cerny and Schain, 1984). Germany and Japan are still in the midst of this transformation (Yamamura and Streeck, 2003; Hook, 2005). The European Union (EU) has been seen neoliberalism as a driving force too, not merely in terms of competition policy and the development of the single market after 1985, but also through the evolving discourse of European integration (McNamara, 1998).

This process was not limited to the developed world. Much worse stagnation in the 1970s and 1980s in Soviet Bloc countries alienated many of the same groups — leading to the protests that brought down the Berlin Wall in 1989, thereby ending the Cold War, and thereafter to a wide variety of neoliberal experiments throughout the “transition countries” (Kaldor, Holden and Falk, 1989; Robinson, 1999; Rutland, 2000). And bureaucratic authoritarian governments in the developing world, especially those mired in the debt crisis of the early 1980s, found their quasi-nationalist, quasi-socialist coalitions dissolving in hyperinflation and crony capitalism.

The rapid industrialization taking place in many transition and developing countries, fuelled by globalization, created a demand for neoliberal policy innovations, broke up old socio-political coalitions and laid the groundwork for new coalitions to emerge, seeking to mobilize both existing and potential new supporters. Pressure from international financial institutions and from advanced industrial countries — the so-called “Washington Consensus” (Williamson, 1990) — led to a first round of restructuring, while financial crises and shocks in Mexico, Southeast Asia, Russia, Argentina and Turkey led to a wholesale shake-up of their financial systems. Today, while domestic political systems diverge, foreign policies compete, and economic reforms take different forms, neoliberalism has become the economic policy program of choice in China, India, Brazil, and South Africa — the main middle-income

developing countries — as well as in the “Asian Tigers” and increasingly in poorer countries too.

*Conflict, Crisis and Consensus in the Neoliberal Trajectory*

Not all disillusioned groups bought the neoliberal package as a whole, of course, but the politics of most countries seemed increasingly to revolve around the conflict between resisting neoliberal policies in order to preserve social values and/or entrenched positions, on the one hand, and attempting to capture the benefits of globalization by copying and internalizing neoliberal prescriptions, on the other (Soederberg, Menz and Cerny, 2005). Severe social disruptions resulted, especially when particular socio-economic groups became unemployed and/or impoverished, whether in developed countries or, more sweepingly, in those developing countries that suffered most from overextended and/or collapsed states, deteriorating terms of trade (especially the “commodity trap” whereby raw materials declined in relative value), and political divisions along communal or class lines, etc. “Anti-globalization” protests did not take that ostensible form until the 1990s, but the rise in internal violence, civil wars, cross-border wars, terrorism and the like have been widely imputed to the negative effects of neoliberal globalization (Cerny, 2000a). Endemic financial and economic crises from the Latin American debt crisis of 1982 to the Asian and Russian crises of 1997–98 and the Argentine crisis of 2001–02 demonstrate that adjustment to neoliberal policies and structural reforms can be a very painful and politically divisive experience.

At the same time, alternatives to neoliberalism have also been ineffectual and often incoherent. Mrs. Thatcher famously said that “there is no alternative” and that “you can’t buck the markets.” In the light of such increasingly influential and politically successful perspectives, the key debates — both political and academic — about neoliberalism have revolved around whether globalization in its neoliberal manifestation is inevitable and whether there is a long-term process of “convergence” taking place across the world — one which cuts across the levels of

analysis distinction and affects domestic and international politics alike (Hülsemeyer, 2003). Within this process of convergence, “embedded neoliberalism” has been identified as the main ideational concept, not only for explaining the dynamics of change, but also for framing and designing public policy. Such an approach is proactively built around a range of market-promoting and market-enhancing policy measures — measures that are themselves rooted in the explicit integration of domestic and international politics and the systematic restructuring of domestic politics around the imperatives of successful insertion of the domestic into the new world politics. These explanations and policy prescriptions cluster around several distinct dimensions of neoliberalism.

#### IV. DIMENSIONS OF THE NEOLIBERAL CONSENSUS

So what are the core dimensions of neoliberalism, and how important have they been in shaping politics and policymaking around the world? At least four main dimensions can be distinguished, although it is possible to identify more. There is increasing consensus amongst both national and international policymakers that at least to some extent these dimensions constitute component parts of a coherent package of reforms that are seen to be “necessary” in the light of increasing interdependence and “global realities.” However, the precise combination of policy measures and the degree of convergence along each dimension in different geographical areas — especially with regard to national political systems — depends upon the configuration of (a) existing domestic institutions and practices, (b) the stances of interest groups both national and international (and the transnational linkages among groups across borders), and (c) the impact and interpenetration of the growing international and transnational public and mixed private/public sectors. As we shall see, these dimensions are increasingly fungible in practice. Neoliberalism is becoming what actors make of it.

*Towards a More Open World Economy: Reducing Barriers to Trade and Capital Flows, and the Internationalization of Production.*

The first dimension, the one most directly related to the development of the post-Second World War international political economy, concerns the reduction of barriers to trade and capital flows. Trade barriers were blamed for the decline in world trade that deepened and extended the Great Depression of the 1930s, and the establishment of the GATT in 1947 — an outgrowth of the Bretton Woods Agreement of 1944 — led to several rounds of tariff reductions and, from the 1970s onwards, attempts to tackle non-tariff barriers too. The more recent transformation of the GATT into the WTO in 1994, along with the negotiation of a range of regional and bilateral trade agreements, indicates that, despite great unevenness and some backward steps, free trade is in many ways the core building block of both embedded liberalism and later neoliberalism.

This process has been accompanied by a growing consensus that new trade barriers lead to a vicious circle of retaliation, leaving all participants worse off — whereas free trade, so long as it does not lead to serious short term structural disruption, seriously “unfair trade” and the like, is a long-term, critical public good benefiting poor as well as rich countries by creating a virtuous circle of economic development and growth. Although free trade, or the uneven version of it that exists, especially in areas like agriculture, textiles, services, intellectual property and the like, has been criticized for “going too far” (Rodrik, 1997), even anti-globalization protestors today accept the need for lowering trade barriers on products on which poorer countries have a comparative advantage, rather than calling for more protectionism.

Furthermore, since the collapse of the postwar adjustable peg exchange rate regime in 1971–73, several factors have led to a multiplication of cross-border capital flows. In particular, the combination of floating exchange rates, the globalization of financial markets and the failure of import substitution industrialization and international aid regimes to

foster effective development has led to the widespread reduction of capital controls. Developed countries, led by both government deregulation and the increasing clout of internationally linked market actors in both banks and securities markets, began seriously to reform their financial systems in the 1970s, while the International Monetary Fund, the Bank for International Settlements and other international regimes pushed for liberalization and established a range of standards and benchmarks for doing so, such as the 1988 Basel capital adequacy standards and the more recent Basel II agreement (Baker, Hudson and Woodward, 2005).

Meanwhile, formerly “Third World” countries, today called “emerging markets” — especially the larger middle-income developing economies — are increasingly able not only to attract foreign sources of capital, both foreign direct investment and international portfolio investment, but are also building reserves which are being lent back to chronically deficit countries in the advanced world, like the US in particular. Despite frequent financial crises and the acceptance that some capital controls may be useful to encourage longer term investment (Chile) and to prevent capital flight in a crisis (Malaysia), the debate on international capital mobility today focuses chiefly on how to institute effective financial regulatory systems at the national, regional (European, North American and Asian) and international levels in order to smooth adjustment to an open global capital markets regime, often called the “international financial architecture.”

Another aspect of economic globalization, the internationalization of production, linked to both trade and financial liberalization, concerns the increasing acceptance of a leading role for multinational corporations (Henderson, Dicken, Hess, Coe and Yeung, 2002). Although the project for a Multilateral Agreement on Investment that would have established international rules protecting MNCs from government intervention was dropped in the late 1990s in the face of widespread opposition, developed and developing states alike, along with the major international

economic institutions, have come to see the internationalization of production, despite widespread — and partly justifiable — fears of exploitation and market distortion, as a desirable necessary if not sufficient condition for economic growth. Freer trade, financial liberalization and the internationalization of production are increasingly taken for granted as core drivers of both domestic and international economies in the 21<sup>st</sup> century and form the cornerstone of the neoliberal project and of embedded neoliberalism at both national and international levels.

### *Embedded Financial Orthodoxy and the Neoliberal State*

The second key dimension of neoliberalism is the reform of national finances, what has been called “embedded financial orthodoxy” (Cerny, 1993). The central feature of this process — its bottom line — has been the control of inflation, seen as having undermined both the long boom in the developed countries in the 1970s and, even more starkly, development in the Third World. Indeed, anti-inflationary policy has been the key touchstone of neoliberalism. Inflation has been seen not as just one instrument of the “fine tuning” of the economy, as was often thought to be the case in the 1960s and early 1970s (the so-called “Phillips Curve”), but as the inevitable beginning of a vicious cycle of economic mismanagement, leading to recession and decline. Defeating inflation was the first priority of neoliberalism.

This vicious inflationary cycle was seen to be at the heart of the crisis of the advanced economies during the 1970s, when political demands by powerful — corporatist — interest groups were seen, especially by the conservative Right, to lead not only to a worsening “wage-price spiral” but also to “overloaded government” (Rose, 1980). This analysis was at the heart of the Thatcherite critique of the postwar Keynesian consensus. Inflation was seen to be increasingly entrenched, with government expenditure pushed upward at every stage — what Sir Keith Joseph called the “ratchet effect.” In the early years of neoliberalism, the harsh

medicine employed focused on undermining such entrenched interests, especially trade unions — key symbolic targets included coal miners in Britain and air traffic controllers in the US — on the one hand, and a combination of economic deregulation and austerity, especially punitive interest rates, on the other — what was called “monetarism.” Inflation had to be “wrung out of the system” before markets could be freed up so as to work efficiently.

With regard to developing countries, this inflationary cycle of decline was even more complex, involving overdependence on import substitution policies; bloated, uncompetitive and featherbedded industries, both nationalized and private, producing expensive and poor quality products for a stagnant domestic market; state-owned or supported banks providing cheap loans to such businesses, often with a government guarantee and little hope of repayment; overextended and overstaffed government bureaucracies; a declining tax base; crumbling welfare states and public services struggling to counteract rising discontent from workers and poor people hit by rising prices on the one hand and falling incomes and state benefits on the other; and increasingly authoritarian superstructures — especially military regimes — trying to keep the system from collapse, often in the face of popular guerrilla movements. Defeating inflation therefore often involved fundamental regime change.

Beyond basic anti-inflationary policies, embedded financial orthodoxy has entailed a shift away from Keynesian macroeconomic demand management to a more market-oriented approach to fiscal and monetary policy. With regard to fiscal policy, both personal taxation — especially at higher rates — and, increasingly, corporate taxation rates have been widely lowered with the express intention of freeing up private capital for investment (supply-side policy). The role of tax reduction for consumption has been more controversial and unevenly applied, but lower taxes have become a key part of the neoliberal consensus on both the Left and Right and in some countries, especially the United States, have been the centerpiece of vote-winning strategies. For example, tax

cuts legislated by the George W. Bush Administration have been criticized by Democrats as being a tax cut for the wealthiest, whereas both Bill Clinton as a presidential candidate in 1992 and John Kerry in 2004 spoke not merely of rescinding tax cuts for the rich but also of legislating in the future for alternative tax cuts for the “middle class” or the “99 percent” of taxpayers who did not benefit from the Bush program.

Balanced budgets are in theory another central tenet of embedded financial orthodoxy, although they are often more honored in the breach than in reality. In the US, deep tax cuts under the Reagan Administration (1981–89) and the George W. Bush Administration (2001–09), along with increased spending, especially for defense and various wars, led to historically unprecedented budget deficits, although at the time of writing these have been reduced from around 6–7% under Reagan to below the 3% standard frequently seen as tolerable by economists today. Indeed, the most rigorous budgetary discipline occurred under the Democratic Clinton Administration (1993–2001). The EU’s Growth and Stability Pact limits national budget deficits to 3% of Gross Domestic Product, although this has constantly come under strain, with higher deficits tolerated in return for promises of future reductions. IMF and WB aid has increasingly become subject to conditions that require recipient countries to run primary budget surpluses. In contrast to the US, political leaderships of both the Left and Right in many developing countries, Brazil for example, have adopted tight budgetary discipline.

Another aspect of embedded financial orthodoxy has been the drive to reform state ministries and agencies in order to reduce waste and make them operate according to the same sort of efficiency standards used in successful businesses. Also the mechanisms by which governments and state agencies manage the money supply have been increasingly subjected to supposedly non-political disciplines, including the manipulation of the money supply through open market operations, the trend towards making central banks independent of political control and

the establishment of sophisticated government debt management offices (DMOs) (Datz, 2007). Finally, macroeconomic management is generally carried out more through monetary rather than through fiscal policy. Embedded financial orthodoxy, which is at the heart of neoliberal economics and ideology, is a key component of what Paul Krugman and others have called the “financialization” of both business and public policy.

*From Outcome-Oriented Interventionism to the Competition State and the Regulatory State*

The third dimension of neoliberalism is a sea change in the character of state intervention in the domestic economy. Traditionally, both socialist and social democratic approaches to state intervention could be characterized as “outcome-oriented,” and in the postwar period the key objectives of public policy were economic growth, the promotion of industrialization, full employment, and a limited amount of redistribution of wealth and income through the tax system and the welfare state. With this package came a broad commitment to greater equality — although actual equality of outcomes has always been an elusive goal in both capitalist and ostensibly socialist societies. The goal of greater equality was particularly significant with regard to social policy. Even center-right and right-wing parties once had to pay lip service to this objective, especially in the wake of the Great Depression and the Second World War (Offe, 1984).

Increasingly, however, such substantive, more direct interventionist goals have given way to regulation and the regulatory state (Moran, 2003; Levi-Faur and Jordana, 2005). The concept of “regulation,” in this context, is a general one which mixes together two distinct modes. The first of these concerns — direct or indirect public control of sectors of the economy and of social and public services — that, left to themselves, were seen to operate in ways that might potentially run counter to the public interest. Regulators, whether in government departments or

relatively independent agencies (the latter was the case especially in the US), often had considerable discretion to design and run services and set conditions — including some elements of planning — for the operation of various industries (wages, working practices, prices, outputs, mergers, etc.) including energy, infrastructure and any sectors considered “strategic” to the national economy. In France, the state promoted the development of “national champion” firms meant to become major competitors in international markets and to dominate domestic markets too (Zysman, 1977).

The second meaning of “regulation,” one developed mainly in the US, involves what has been called “arms’-length regulation” — i.e., that the role of “regulators” by definition is not to intervene in order to produce particular outcomes, but rather is to establish and enforce general rules applicable to a particular sector, industry or service in order to make it work more efficiently in the economic sense of the term. The ostensible purpose of these rules has been to prevent fraud, promote competition and restrict monopolistic and oligopolistic practices, counteract “market failures,” enforce contracts and property rights, and generally provide a quasi-legal environment for actors — mainly private market actors — to operate in efficient market fashion, although the effectiveness of such an approach has been criticized in the light of recent scandals such as the bankruptcy of the Enron Corporation in the US in 2001.

The latter of these two conceptions of regulation is increasingly at the core of the neoliberal project. As the authors who coined the phrase “reinventing government” have written: “Governments should steer but not row” (Osborne and Gaebler, 1992). Ideally, they argue, governments ought not to run industries or provide services directly, but rather provide a working framework of rules and procedures — like those of an auction — for market actors to follow.

Indeed, in this context, neoliberals are divided on one key aspect of this process. Some neoliberals in the 1970s and 1980s, especially

neoclassical economists, argued that government should stop intervening in the economy almost entirely. The concept of “deregulation” originally meant just what it said — repealing all rules that caused market participants to behave in any other way than that dictated by their own self-interest or “utilities,” and that those rules had thereby distorted markets and made them inefficient. Markets, it was argued, would be automatically efficient and self-regulating — the so-called “efficient market hypothesis” — if left alone.

However, other neoliberals argued that it was the *type* of regulation that mattered, and that arms’-length “prudential” regulation, the second type outlined above, was necessary in order to promote efficient market behavior. Deregulation, in effect, was never really deregulation; it increasingly became the replacement for outcome-oriented and discretionary interventionism with new market-friendly regulations — a form of pro-market or pro-competitive *re-regulation* (Cerny, 1991). Indeed, in many cases the new regulations were more complex and onerous than the old type. A well-known example is the regulation of insider trading in financial markets, almost unknown (except in the US) before the 1980s; insider trading regulation, intended to prevent price-fixing among insider groups when trading securities and engaging in mergers and acquisitions, requires a robust legal and supervisory superstructure to be effective. Thus pro-market regulation can paradoxically be actually more intrusive than traditional forms of direct government intervention (Cerny, 2000c).

The arms’-length regulatory model is increasingly used to restructure public and social services: Cerny and Evans (2004) refer to the “Post-Welfare Contracting State,” Jessop to the “Schumpeterian Workfare State” (Jessop, 2002). Moran argues that the culture of “hyper-innovation” characteristic of the new regulatory state is more intrusive and centralizing than ever (Moran, 2003). The core of the regulatory approach is contractualization and “*ex post*” regulation — i.e., that behaviour is not constrained *a priori* (or *ex ante*), but is agreed on a contractual basis and then subject to later litigation when and if rules are

broken. *Ex post* enforcement includes both judicial and quasi-judicial procedures, especially through independent regulatory agencies; the development and proliferation of such bodies is sometimes called “agencification.” The primary purpose of such regulation is ostensibly the promotion of competition, seen as the central mechanism of efficient market behaviour or what Adam Smith called the “invisible hand” of the market, although its secondary purposes — often given precedence in political discourse — are claimed to be the prevention of fraud, the protection of consumers and the avoidance of contagion from market failures.

Such rules-based systems nevertheless also require extensive monitoring and surveillance in order to determine whether agreed performance indicators or targets have been met, rather than the exercise of discretionary “*ex ante*” control. Ever more aspects of economic life are today subject to extensive regulation of this sort, imposed by governments of both Left and Right, in both developed and developing worlds. Indeed, one of the main roles of the IMF, the WTO and the WB today is to proselytize the regulatory creed and spread their version(s) of “best practices” throughout the world. Thus, although neoliberalism is rooted in a belief in the superiority of efficient markets, most neoliberals today would agree that many markets require extensive new regulatory regimes to make them work efficiently — although which markets need more regulation and which need less is a major bone of contention, within as well as between, both the Left and the Right. Indeed, there is a whole new academic industry emerging around the analysis of regulation in a global context, both critical and problem-solving (Jayasuriya, 2005; Jordana and Levi-Faur, 2005).

### *Reinventing “Governance”*

The fourth core dimension of neoliberalism concerns the role of the private sector and its complex interaction with public sector institutions and mechanisms in a range of contexts. Rather than reinventing “government”

as such, this involves a wider process of reinventing the fundamental relationship between the private and the public sectors that is supposed to maximize synergies between them, a process Rhodes calls “governance” (Rhodes, 1997). At one level, for example, neoliberalism has always involved the privatization of many public and social services and experimentation with mixed public–private productive and distributive goods. However, the emphasis has shifted from the direct sale of government–controlled industries to the private sector, as in the United Kingdom under the Thatcher Government, to “contracting out” services, the development of public–private partnerships (PPPs) and the use of private sources of finance for public purposes; an example is the UK’s Private Finance Initiative (PFI) for the construction and, sometimes, operation of schools, hospitals, prisons, etc. (Dunleavy, 1994).

Proponents argue that structural changes in the economy, especially the development of information and communications technology (ICT), have fundamentally transformed how firms work and shifted the boundaries between public and private sectors — not merely reinventing government but also reinventing governance. Opponents argue that such services have a public character that is undermined by privatization. A key example cited is the privatization of aspects of military and defense provision, from suppliers of materiel at home to the use of private military contractors (PMCs) to support military activities in the field — as has been highlighted by the recent controversy over the role of Blackwater in Iraq — or even to substitute for them, as with mercenary forces in Angola, Sierra Leone, Fiji and elsewhere (Cowen, 2007; Leander, 2007). Another objection is that cost savings have not materialized and that governments have assumed private contractors’ financial risks where cost overruns and quality deficiencies have occurred, such as with Halliburton’s (and other firms’) activities in Iraq.

This dimension is linked with the shift to the regulatory approach discussed earlier, in that contractualization, the use of financial performance indicators, and *ex post* enforcement are at the heart of the

system. It also involves the development of hybrid forms of “governance” around special-purpose bodies such as development agencies at the local, sub-national-regional, national, supranational-regional, transnational and international levels. Indeed, the use of the word “governance” instead of “government” took its original inspiration for Rhodes, not simply from the traditional distinction between government as formal institutions and governance as informal processes, especially policy networks, but also from international regime theory discussed above (conversation with author, 1993). Neoliberalism involves the substitution, where deemed appropriate (this is a matter for debate among neoliberals), of purpose-built regimes for the organization of public life, regimes that straddle the public-private divide and involve market participants directly in the authoritative allocation of resources and values. In this sense, neoliberalism, like “neomedievalism,” involves the semi-fragmentation of government into crosscutting and overlapping institutions and processes — what Machin and Wright (1985) called the “splintered state” and Slaughter (2004) calls the “disaggregation” of the state.

#### V. WHO’S DRIVING CHANGE? NEOLIBERALIZATION FROM TOP DOWN, BOTTOM UP, INSIDE OUT AND OUTSIDE IN

The emerging embedded neoliberal consensus is not simply developing “from below” as market forces and transnational interpenetration constrain governments, international institutions and other political actors to behave in particular ways. It is a political construction promoted and shaped in real time by “political entrepreneurs” who must design projects, convince others, build coalitions and ultimately win some sort of political legitimacy. It is difficult to attribute either neoliberalism itself or its various component parts to a single independent variable, although it has generally developed in the context of and in parallel with globalization. In the last analysis, as argued above, it is the capacity of actors to co-opt, manipulate and re-frame

neoliberalism around a range of diverse goals that enables embedding to proceed.

### *The Overdetermination of Neoliberalization*

In this context, and partly as a result of the range of actors and situations where it appears, what is remarkable about neoliberalism, like embedded liberalism before it, is that it would appear to be “overdetermined.” In other words there are several interacting factors and independent or quasi-independent variables pushing in the same direction. Scholars will debate the relative significance and independence of these variables in embedding neoliberalism, but virtually all categories contribute to the increasing discursive and practical hegemony of neoliberalism. In this section we will look briefly at several types of categories — policy challenges and institutional responses; patterns of interest articulation and aggregation; and patterns of actor behavior cutting across and linking the first two — and suggest how they each contribute to the neoliberalization process.

#### –Policy challenges and transnational institutional responses

In the first place, structural and institutional trends at both the domestic and transnational levels have reinforced the embedding of neoliberalism. In particular, the role of the nation-state has changed dramatically since the middle of the 20<sup>th</sup> century. The scale of problems faced by political, economic and social institutions has shifted upwards and outwards, making the traditional tools of the “modern” nation-state problematic to apply.

Macroeconomic policy is increasingly constrained by the integration of international markets, leading to a convergence of monetary and fiscal policies and policymaking processes, including tax competition, the convergence of interest rates, the trend towards politically “independent” central banks, and the like. Regulatory policy is increasingly affected by

regulatory competition or “arbitrage.” Industrial policy has been transformed by the transnationalization and flexibilization of production, and is increasingly targeting niches that must be internationally competitive to survive — including many small- and medium-sized firms. Barriers to cross-border trade and capital flows are being reduced, however unevenly. Social policies are being both marketized and reoriented towards compensating losers. And perhaps most salient of all at the present time, environmental problems such as global warming can only be tackled through extensive cooperation, often honored in the breach, thus constituting a crucial challenge to national policy autonomy that states are having serious difficulty adjusting to given their other policy priorities.

In this context, traditional statist and mercantilist policy and institutional responses have been the main losers, despite attempts from time to time to resurrect them on the basis of resource wealth. Early economic liberal and neoliberal responses have proved inadequate too, as the Washington Consensus, the structural adjustment policies (SAPs) imposed by the World Bank in the 1980s as conditions for loans to developing countries, the lifting of capital controls, and attempts to shrink the welfare state have given way to the Post-Washington Consensus — attempts to innovate in areas such as poverty reduction and “good governance,” and regulatory reform and innovation. Although the development of international regimes and global governance institutions is still partial and fragmented, the WB, the IMF, the WTO, the Bank for International Settlements, the G7/8, the G20, the ILO and many more are not only rooted in a neoliberal rationale but also inherently bound up in a trial-and-error evolutionary process. Neoliberal discourse and normative principles have proven to be a particularly flexible resource in an institutionally complex and even messy world, both for policy experimentation and policy articulation, and networking among a range of institutional levels. Thus a whole range of institutional responses to policy challenges help to “overdetermine” the growing hegemony of embedded neoliberalism.

–Interest articulation and aggregation

Secondly, interests and interest groups are less rooted in domestic society and more locked into transnational and international patterns. Insulated domestic political solutions are increasingly impossible to design in an open, interdependent world. It is not only multinational corporations that have to define their interests in transnational fashion, but also small businesses dependent on some combination of exports, imported inputs, investment from markets and institutions themselves dependent on globalized circuits of capital, changing consumer preferences and the like that pressure institutions and policymakers to pursue neoliberal policies. The resurgence of international migration and the challenge of multiculturalism are transnationalizing the very perception society itself. And technological change, in particular the rapid evolution of information and communications technology, makes cross-border linkages routine among ordinary people as well as decision-makers.

Of course, such changes provoke backlashes from those at the sharp end, and protectionist and nativist pressures are constantly at the forefront of political debate and the news media (e.g., Buchanan, 2006; “Lou Dobbs Tonight,” Cable News Network). In the short term, such pressures can seem very strong. However, what is perhaps most striking is that these backlashes rarely alter the wider trend towards openness. Even the American-led “War on Terror,” with its restrictions on cross-border movement such as the Patriot Act and increased surveillance, looks increasingly temporary as political and legal opposition mounts. Attempts to impose stricter immigration controls around the world appear toothless in the face of economic incentives for people to move to where employment and upward mobility are seen to be available.

In this context, it can be argued that we are witnessing what Spruyt called a “rearticulation of social and political coalitions” in the context of globalization (Spruyt, 1994). Traditional “sectional groups” such as businesses, trade associations and trade unions (Evans, 2007) seek to

develop active, organized cross-border networks. Both sectional and “value” groups are also increasingly associating through non-governmental organizations and “global civil society” to pursue their wider goals. The most effective groups are those that are able to proactively articulate their activities on a multi-level basis, for example by coordinating local-level and grass-roots-type organizational activities with pressure on provincial authorities, media campaigns, traditional methods of influencing national governments, legal action through courts and quasi-legal administrative bodies, recourse to and coordination with international regimes, pressuring and negotiating with multinational businesses, etc., at the same time (Cerny, 2000b).

In this process, groups cannot merely call for authoritative action by hierarchical governments. They must also appeal to consumer interests, formulate innovative regulatory proposals, seek private-sector solutions such as “corporate social responsibility” guidelines (Lipschutz, 2005), and promote neoliberal principles of “good governance” that can be applied in flexible, market-friendly, internationally open ways. Thus interest groups constitute a second fundamental variable in determining — and overdetermining — the trajectory of neoliberalism and of neoliberal globalization.

–Patterns of actor behavior and framing discourses

The first two categories above, policy challenges and institutional responses and interest aggregation and articulation, represent fundamental structural shifts to which neoliberal policies and discourse appear to be the most appropriate response. At the core of both trends, however, is the role of actors. Set in an evolving institutional and distributional context, it is the ability of key actors — not only “political entrepreneurs” but also ordinary people in their daily lives — to adjust, adapt, refashion their understandings of the world, and develop strategies and tactics to deal with those trends that will shape real world developments. As stated earlier, neoliberalism is what actors make of it. And all sorts of different actors — economic, political and social — are

finding neoliberalism to be a more and more suitable vehicle for framing problems and developing strategies for pursuing their objectives.

Economic actors are not merely “dependent variables” in a process of economic change. Involvement in transnationalizing firms, market structures and networks also generates a different kind of economic consciousness, which does not see the world as simply divided into national economies, but cut across by transnational sectors, strategic alliances, skills that are transferable across borders, and a concept of economic efficiency and profit that links the individual with the global context. As Stopford and Strange point out, countries don’t compete, firms compete (Stopford and Strange, 1991), and the very conception of competition is changing as actors — loosed from their national moorings — alter their horizons and refashion their businesses in an attempt to stay ahead of the curve. The fact that business schools around the world increasingly pass on these global values, approaches and strategic orientations in the very formation of actor understandings is crucial to the development, if not of a “borderless world” (Ohmae, 1990) at least one in which borders are being continually deconstructed and reconstructed along functional lines (Cerny, 2008b). Trade unions, too, are reorienting their strategies around such global values (ILO, 2004; Evans, 2007).

Political actors are also reshaping the way they frame the world and approach both policy issues and socio-political restructuring. Most important are “political entrepreneurs” or “institutional entrepreneurs,” whether at local, provincial, national or international levels — especially where they play pivotal roles linking the different levels of what has come to be called “multi-level governance”. In this context, what are usually called “state actors” — politicians, bureaucrats, political parties, etc. — are particularly crucial in formulating new public policies designed to overcome the legacy of the “overloaded state,” “stagflation” and the like, and in breaking up old and building new political coalitions at both elite and mass levels to win elections or control and reshape bureaucracies in order to promote marketization and competitiveness.

In the 1970s, neoliberal state actors were primarily of the Right, like Reagan and Thatcher. Today, with the exception of Hugo Chavez, Mahmoud Ahmedinejad and (possibly) Vladimir Putin, most state actors or both the Right and Left are fundamentally neoliberal. The “competition state,” whether in the US, Europe, China, Singapore or Brazil, is itself shaped by neoliberal state actors, often in the teeth of traditional left-right divisions and backlashes. One key group today involves so-called “transgovernmental networks” of regulators, legal specialists, legislators and other politicians and bureaucrats who regularly interact and share problems and views with similar actors in other countries. For example, financial regulators are likely to have far more in common with their interlocutors in other financial regulatory agencies, financial services regimes and trade associations, etc., in terms of norms and understandings of how to deal with financial globalization, than they will with politicians and bureaucrats in other parts of their own state apparatuses (Baker, Hudson and Woodward, 2005). Indeed, such networks have been said to be the core of a fundamentally neoliberal “new world order” (Slaughter, 2004).

Another way in which political actors are important in spreading and entrenching neoliberalism involves the political and economic power differentials among states. This is especially true of the role of the US and the American model with its inbuilt “globalization premium” (Friedman, 1997) or organizational correspondence with the emerging global political economy — its neoliberal political culture, multi-level federal institutions, marketized economy, arms’-length regulatory culture and free market ideology. American “hegemony,” it can be argued, is not fundamentally the top-down hegemony of the American “state” as such, but the bottom-up, “infrastructural” hegemony of the American model of society — popular in many parts of the world even where American foreign policy is despised (Cerny, 2006).

A third way, of course, involves political actors with the expanding range of diverse international organizations, regimes and other organs of

“global governance.” These are staffed by people who see themselves as having an inherently more global perspective than those who work in national governments. It is not merely that they take on non-national identity, but more that they seek to make those institutions increasingly autonomous of their formally intergovernmental sponsors. To the extent that such actors are able to entrench their positions, especially through espousing neoliberal goals that can reconcile their strategies with transnational private sector actors and state actors, they will be able to both protect and expand their organizational “turf” while at the same time further embedding neoliberalism as the common sense of evolving global governance.

Social actors are perhaps the most transnational category. Issues of global inequality, environmental degradation and challenges to the welfare state have mobilized a wide range of actors, including transnational value groups and “global civil society,” cross-border ethnic and religious groups, linked through migration, the expansion of diasporas, and the Internet, and ordinary people linked through the Internet who do not need to move physically to participate in transnational society. Interestingly, the “anti-globalization” movement, which has had a number of media and political successes such as the demonstration outside the 1999 WTO meeting in Seattle, has transformed itself into the “alter” (or alternative) globalization movement, working through the World Social Forum and similar platforms.

More important, however, is the way local and global actors interact through the development of “global microspaces,” “transnational circuits” and “shifting spaces” (Sassen, 2007). In all of these cases, actors have sought to craft new ways to navigate among the different levels of “glocal” action through “translocal civilities,” “global nomadism,” “global cosmopolitanism” and the like. In reconstituting their multilevel action frames, developing complex transnational-yet-local identities, and developing strategies dependent not on hierarchical state spaces but on

a combination of flexible market-like — yet socially aware — policy alternatives, these actors are actively reconstituting neoliberalism in a fluid yet fungible environment that goes beyond mere structural change.

*The Politics of Neoliberalism: Innovating Across Issue Areas and Multi-Level Governance*

Therefore in the evolving world of embedded neoliberalism, the dominance of the discourse of neoliberal ideas — their ideological acceptability and centrality — gives actors who participate in the embedded neoliberal consensus not only greater ability to proactively design creative quasi-neoliberal responses and solutions, but also to entrench, through socialization, *a priori* anticipated reactions that internalize neoliberalism in the way people frame political and economic issues.

Neoliberal public policies, whether at national, regional or international levels, do not merely constrain but also bring opportunities. Contemporary politics entails both a process of choosing between different versions of neoliberalism, and the attempt to innovate creatively *within* the new neoliberal playing field. Although open trade and capital flows, embedded financial orthodoxy, the regulatory state, privatization and hybrid forms of governance, the post-welfare contracting state, etc., are the bottom line of neoliberalism, their implications vary dramatically by policy issue area.

Of course, economic globalization and the new neoliberal politics and public policy it has engendered have involved a reshuffling of the pack. New groups, interests and political entrepreneurs have emerged; old interests and coalitions have either declined or adapted; and the pecking order of influence and clout has been profoundly altered. But the need for stabilization and social integration has also forced such actors to innovate not only in different issue areas but simultaneously across the complex, multiple levels and nodes of governance that characterize the

21<sup>st</sup> century. There are several kinds of socially significant policy innovations that are being experimented with in different issue areas and at different levels. These innovations at first glance seem quite disparate, but they all involve initial responses to the challenge of “reinventing the social” in a neoliberal world.

In the first place, we have witnessed almost everywhere a shift to regulatory and microeconomic industrial policy with an increasingly dominant international dimension — the promotion of competitiveness. This shift is increasingly significant not only for multinational firms but also for small and medium-sized enterprises in an open world economy. Along with a rhetoric of entrepreneurship, free trade and a commitment to fostering structural change while compensating losers, this dimension of neoliberalism means that basic economic activities have been re-framed and re-situated in the global (or “glocal”) context rather than simply the nation-state.

In turn, conceptions of how to improve welfare have partly shifted to the transnational level too. Linking trade opening to environmental and labor standards gives additional leverage to a kind of extraterritorial social policy, although the inclusion of such standards in multilateral and bilateral trade agreements has proved controversial — not least because countries with a comparative advantage in labor costs have resisted their inclusion. Paradoxically, and contrary to predictions made a decade or two ago, welfare spending has not significantly dropped and a range of welfare reforms have in some instances actually expanded and improved welfare services, especially in developed countries seeking to compensate losers. Neoliberalism is no longer seen as being incompatible with welfare, but provision of the latter is increasingly framed in a global context. Political leaders like Presidents Fernando Henrique Cardoso and Luiz Inácio Lula da Silva of Brazil have sought, in both domestic and international forums, to reinvent domestic social policies for a globalizing world (Cardoso, 2001), while former Secretary General of UN, Kofi Annan’s proposal for a Global Compact seeks to

develop a kind of transnational neocorporatism through a collaboration with business to promote social goals.

The stress on arms'-length regulation put by neoliberalism has actually helped increase the demand for and supply of regulation across the world significantly by redefining regulation as a cross-border phenomenon. Demands for stricter and more accountable international rules and procedures for corporate governance, accounting standards, bond rating agencies, private mediation and arbitration procedures, antitrust regulation and the like, especially in the wake of the Enron bankruptcy and other corporate scandals in the United States and elsewhere, are reshaping government-business relations. Financial crises in Mexico (1994), Southeast Asia (1997), Russia (1998), Argentina (2001) and Turkey (2001-02), among others, have reshaped international financial governance; developed countries, particularly the US, have not been immune either, as the recent subprime mortgage crisis has demonstrated. A neoliberal approach to a fluid, multi-level "international financial architecture" is today seen to be preferable to the kind of unilateralism represented by the US Sarbanes-Oxley Act of 2002, which is widely regarded to have helped to undermine the leading role of Wall Street in world financial markets.

As pointed out earlier, international regimes and global governance institutions have not only sought more autonomy but have also transformed their policy goals to a more complex, evolved neoliberal approach. For example, the World Bank's shift in the mid-1990s to giving priority to poverty reduction goals over harsh structural adjustment policies has changed the discourse of global governance towards more socially-oriented goals, although how much it has changed the substance of policy is hotly debated. At the same time, the major international economic institutions, the leading developed states and many non-governmental organizations (NGOs) increasingly emphasize "good governance" and democratization as key objectives necessary for stability and growth. Indeed, some analysts would include

these as a fifth dimension of the embedded neoliberal consensus. Similarly, the World Social Forum and other non-governmental platforms have shifted the focus of advocacy group debate from anti-globalization to alternative approaches to globalization. And, despite US non-participation, the Kyoto Protocol, the International Criminal Court, the Ottawa Convention on Landmines and a range of other international agreements may prefigure a new kind of incremental public legal internationalism.

#### VI. CONCLUSION: TOWARDS “REGULATORY”, “MANAGED”, AND “SOCIAL NEOLIBERALISM”?

The evolution of neoliberalism over the past 30 years has therefore transformed it from a relatively dogmatic, enforced *laissez-faire* doctrine into a kind of common sense for the 21<sup>st</sup> century. Embedded neoliberalism involves first of all an acceptance that we live in a multilevel, more open and market-like globalizing world in which informal and negotiated policy processes do not merely complement relations among nation-states but constitute a complex, fungible, pluralized political game that is drawing in ever more actors. Furthermore, globalization has generated a range of multilevel, interlocking playing fields on which actors have increasing scope to experiment and innovate policy approaches in practical situations — what French anthropological theorist Claude Lévi-Strauss called “*bricolage*.”

Thirdly, neoliberalism, with its mixture of free-market liberalism, arms'-length regulation, institutional flexibility and international openness, has proven to be a relatively manipulable and fungible platform for actors to use to reconstitute their strategies and tactics in the context of the first two aspects just mentioned. In particular, differentiation among the strands or dimensions that together constituted the neoliberalism of the 1980s has enabled actors to pick and choose among them while adding

new concerns and goals. Neoliberalism is increasingly what actors make of it.

Attitudes towards these changes, and towards the use of the term neoliberalism itself, of course, vary considerably. While these developments and innovations, I argue, add up to a virtual range of alternative neoliberalisms, competing politically with — and increasingly winning out over — the original, more *laissez-faire* neoliberalism characteristic of Thatcherism and Reaganism over the shape of the a more open, globalizing world order, still the process of discursive evolution is often uneven and unacknowledged. Paradoxes abound. Some commentators who are otherwise aware of the downside of neoliberalization nevertheless see it as spreading benefits widely (e.g., Coyle, 2002); others who put forward incisive criticisms of 1980s neoliberalism and reject the very concept inadvertently end up proposing policy changes that would fit well with the sort of regulatory, managed and social forms that I argue neoliberalism is taking (e.g., Chang and Gabel, 2004).

Nevertheless, the combination of the embedded neoliberal consensus on the one hand, still rooted in the four dimensions outlined above, and the multiplication of actors seeking to shape it, not only constitutes the bottom line of world politics but has created a growing political imperative to reinvent the social and regulatory dimensions of politics in today's complex, multilevel world. This process of evolution and reinvention are therefore leading to the crystallization of better defined "varieties" of neoliberalism, articulated around negotiated transnational regulatory mechanisms — "regulatory" or "managed" neoliberalism — and a new, as yet embryonic "social neoliberalism" that a few years ago would have seemed like a contradiction in terms.

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