

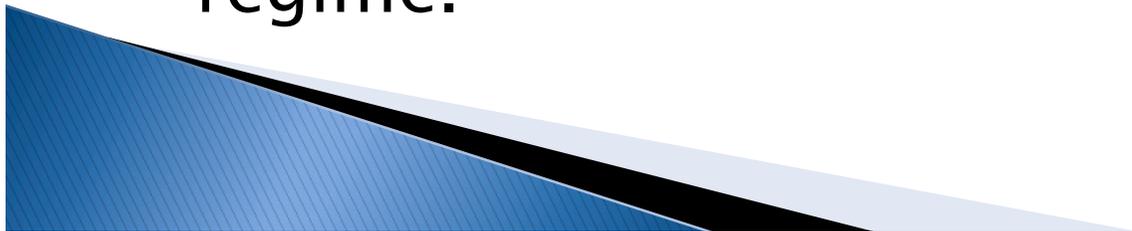
# After the neoliberal hegemony constraint

Conference at the 3rd symposium “Economic  
crisis and policy regimes”, Waseda University,  
Tokyo, October 16, 2012

Luiz Carlos Bresser–Pereira  
[www.bresserpereira.org.br](http://www.bresserpereira.org.br)

# The times we live

- ▶ From 1949 to 1978 we lived the 30 Golden Years of Capitalism;
- ▶ From 1979 to 2008 we lived the 30 Neoliberal Years of Capitalism.
- ▶ Since 2008 we live the Long Recession or the the general crisis of the neoliberal policy regime.



# Policy regimes

- ▶ A policy regime is a time where a cross class coalition turns hegemonic enough so that a single view of world around us turns legitimate –
- ▶ –is a time where only a given set of values and norms or just an ideology turns acceptable by society, and the other are viewed as “backward” or “wrong”.



# Policy regimes correspond

(in the historicist tradition that I adopt)

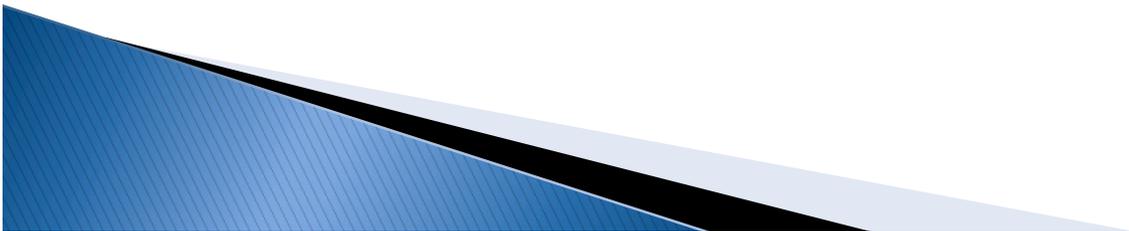
to **forms of state**,  
in so far as is the fundamental institution that  
regulates modern societies,

or, if other words,  
to stages of development, patterns of  
development or “modes de régulation”.



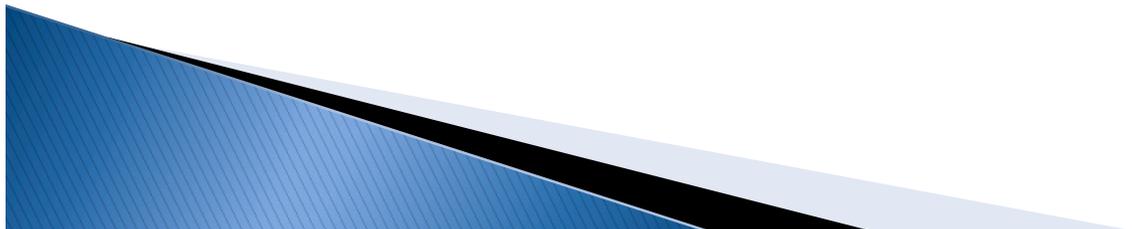
# Policy regimes and class coalitions

- ▶ When a policy regime or a form of state is in force, a class coalition becomes ideologically hegemonic,
- ▶ and we live in the times of the “one best way”.
- ▶ We have the impression that there are no alternatives – that the value system and above all the policies adopted are the only ones that are rational.



# Cross class coalitions

- ▶ Are political coalitions not involving a whole social class (and implying class struggle),
  - ▶ But associating:
    - active capitalists or entrepreneurs, public bureaucracy and workers (this is a **developmental** class coalition)
    - non-active or rentier capitalist, financiers, and (in developing countries) foreign interests (this is a **neoliberal** liberal class coalition).
- Thus**, the alternative to the developmentalism is economic liberalism.



# Forms of the modern state

In countries that industrialized originally:

1. Absolute (Mercantilist)
2. Liberal
3. Liberal–democratic
4. Social–democratic
5. Neoliberal state

What now? After the Long Recession?



# Forms of state in the latecomer countries

(that had to confront industrial imperialism to develop, making a nationalist revolution)

1. Oligarchic state
2. Developmental state
3. New developmental and social state

Japan was the first latecomer country to build a developmental state, and succeed.

Latin American countries, the second, but in the 1990s they bowed to the neoliberal policy regime

Fast growing Asian countries kept being developmental states, despite neoliberal hegemony.

To become a democratic developmental and social state is the present challenge.



# Why a policy regime materializes?

(Why, in the 1950s, did the the social-democratic and the cristian-democratic parties in Germany were building the welfare state, and, in the 1990s, rejecting it?)

Because new historical facts act as **constraints**, and open room for the definition of a new hegemony.



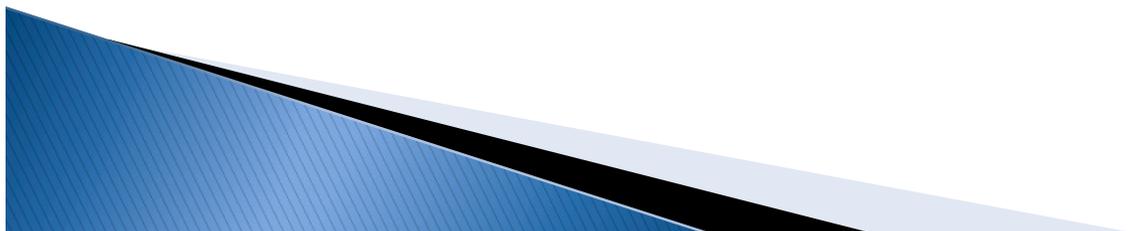
# Three types of constraints

- ▶ **Economic constraints:** if they are not complied with the economic system will malfunction.
- ▶ **Political constraints:** if they are not complied with the political system will face problems.
- ▶ **Hegemony constraints:** if they are not complied with the dominating class coalition will see their interests not satisfied.



## The hegemony constraint is the determining factor of a policy regime

- ▶ The other two constraints are also powerful, but they are always present.
- ▶ When the hegemony constraint is strong, the policy regime will be supreme; the ruling ideology will be “the only truth”.
- ▶ I am, naturally, using Gramsci’s concept of ideological of hegemony.



# The hegemonic claims want either be economic or political constraints

- ▶ but if they are “hegemony constraints” in the sense that I am giving to the expression, they are not.
- ▶ They often oppose them.
- ▶ Two examples:
  - “progressive taxes hinder growth”.
  - “financial crisis are caused by irresponsible politicians; the private sector is normally balanced”.



# Building the new hegemony

- ▶ The “mechanisms” are complex.
  1. Major intellectuals build the new credo.
  2. The control of the media plays a central role.
  3. Also the work of the difusers or opinion leaders (Gramsci’s organic intellectuals) .
  
- ▶ Eventually the new consensus is achieved rather through cooptation (assuming that the other already accepted it) than with argument.



# Daggeer's four mechanisms of ideological hegemony

1. (Subpreption)
2. Contamination
3. Emulation
4. Mystification

(Dugger, William (1980) "An Institutional Framework of Analysis," *Journal of Economic Issues*, vol. 14, no. 4 (December): pp. 897–907.)

- ▶ Later he added "subordination".



# Why does a new class coalition turns hegemonic?

- ▶ Because the economic and political system came to a crisis,
- ▶ but not because the new coalition offers better policies.
- ▶ Rather because it was able to profit the opportunity offered by the crisis to conquer political power.



## A neoliberal hegemony is more “natural” than a developmental and social one.

- ▶ Although capitalism was born within a developmental state (the mercantilist state), economic liberalism turned into the par excellence bourgeois ideology.
- ▶ Developmental and social hegemony involves a more complex and internally contradictory cross class coalition.
- ▶ Thus it is “easier” for neoliberals to profit the opportunity of a crisis and turn dominant.



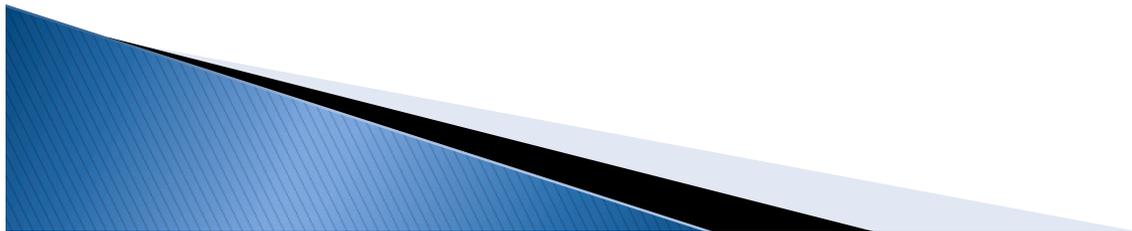
# Comparing two new hegemonies

- ▶ For the welfare or social state turn hegemonic it was required the Great Depression and World War II
- ▶ For the 30 golden years turn into the 30 neoliberal years of capitalism it was enough:
  - a minor economic crisis or slow down in the 1970s
  - the new competition coming from developing countries
  - the collapse of Soviet Union.



# For 30 years, we had the 30 Neoliberal Years of Capitalism

- ▶ Instead of the broad, social, and relatively developmental class coalition that characterized the 30 Golden Years, we had a narrow class coalition formed of
  - ▶ Rentier capitalists
  - ▶ And professional financiers that manage the wealth of the former.



# On the real side, what did stir the new neoliberal hegemony?

1. The excessive demands of workers in the golden years.
2. New competition of NICs exporting manufactured goods.
3. Relative increase of state expenditures and the power of state bureaucracies.
4. Populist policies in Latin American countries in the 1980s with democratization.

In particular, causes 1 and 2 were real: they asked for **reduction of wages**.



## On the intellectual side the rethoric of identifying welfare with statism worked

- ▶ Since the 1940s “old” liberal intellectualls reacted against communism, as Hayek and Popper.
- ▶ They opposed statism & totalitarism to capitalism & freedom. What made sense: Soviet Union was statist and Stalinism, tototalitarian.
- ▶ Yet, since the 1960s “new” liberal intellectuals (as Friedman and Buchanam) reacted against the welfare state, **as if** moderate state intervention meant statism.



# They defined the neoliberal economic argument:

Unregulated markets and small state would be

- ▶ more efficient (competitive)
- ▶ and more stable.

Using as justifying theories:

- ▶ neoclassical and Austrian economics
- ▶ public and rational choice
- ▶ new institutionalism

These were the arguments that founded the neoliberal hegemony constraint.



# In fact, in the 30 neoliberal years, neoliberalism proved

- ▶ To be more competitive (not more efficient) **only** in so far as it reduced wages.
- ▶ To be highly more **unstable** in financial terms (bubbles and bubbles, crisis and crisis).
- ▶ To cause high increase in **inequality**: standards of living of the poor and the middle class stagnated between 1979 and 2008, while the rich 2% became even more rich.



# In 2008, the inevitable collapse

- ▶ Despite the increase in inequality, it was an **economic** collapse, not a political one.
- ▶ An economic collapse caused by:
  1. Financial deregulation and ensuing financialization (financial “inovations” and fraud to increase rents).
  2. Increase in consumption credit to compensate stagnant wages.
- ▶
- ▶ And we live now for already four years **the Long Recession**: rich countries are practically stagnant since then.
- ▶ But political consequences will follow.



# This collapse caused damages all around the world

- ▶ According to International Labor Organization:
- ▶ “Since the onset of the current crisis, global unemployment has risen by around 30 million to over 200 million, labour force participation has fallen by another 30 million meaning that we now have 60 million fewer jobs than in 2007.” (Stephen Pursey 2012)



# Today we live in a moment of political transition.

- ▶ The neoliberal rentiers & financiers class coalition lost hegemony.
  - ▶ Neoclassical or orthodox economics turn demoralized.
  - ▶ But there is not an alternative
    1. developmental and social **class coalition** being formed;
    2. **heterodox** economics (like the Keynesian in the 1930s);
    3. **political narrative** justify the new politics.
- 

# What new economics?

- ▶ A Keynesiano–structuralist economics
  - a **development macroeconomics** combining:
    1. financial stability (and price stability)
    2. with investment and growth, managing the demand side.
  - a **development microeconomics** combining:
    1. market coordination of competitive industries
    2. with state coordination and planning of non–competitive industries



# What new political narrative?

- ▶ Neoliberalism failed in 1929 and failed again in 2008.
- ▶ Economic development was always the outcome of developmental political coalition, beginning with the mercantilist class coalition.
- ▶ Historically, the developmental state combines state and market coordination.
- ▶ When the regime turns democratic, the developmental states turns also a welfare state.
- ▶ Neoliberals say that is impossible to combine state and market, welfare and growth.
- ▶ Indeed, it is difficult.
- ▶ But definitely impossible is to have just market and growth, without the state and without welfare.



# Who will originate or lead the required new ideas

- ▶ The US? It is divided and seek society. And still believes that its wealth is due to economic liberalism.
- ▶ Europe? It should, because it made the industrial revolution and invented the welfare state, but it is paralyzed by the Euro crisis.
- ▶ Asia? It could. But Japan, that gave birth do the developmental state, has been always low profile politically, while China must first resolve its democracy problem.



# My bet is that the new state that is in the making

will be a **social–developmental** state,

combining:

Free markets in the competitive industries, and  
state planning in the non–competitive ones;

Growth and stability with gradual reduction of  
inequalities via increasingly more efficient  
social and educational services.

(more efficient than its individual provision)



# It is just a bet? Yes, it is, but

it is a bet of someone who sees that, since the 18th century, there is economic development.

- ▶ That this progress was fruit of:
- ▶ –scientific and technological progress;
- ▶ –private and public entrepreneurship of organizations, and
- ▶ –**the political construction of the state** – a confused and contradictory but **deliberate** human endeavor.



**Luiz Carlos Bresser-Pereira**  
Professor Emérito da Fundação Getúlio Vargas  
[www.bresserpereira.org.br](http://www.bresserpereira.org.br)

