



## Introduction

The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas. Not, indeed, immediately, but after a certain interval; for in the field of economic and political philosophy there are not many who are influenced by new theories after they are twenty-five or thirty years of age, so that the ideas which civil servants and politicians and even agitators apply to current events are not likely to be the newest. But, soon or late, it is ideas, not vested interests, which are dangerous for good or evil.

JOHN MAYNARD KEYNES, *The General Theory of Unemployment*, 1936

Neoliberal ideas—monetarism, deregulation, and market-based reforms—were not new in the 1970s. But as Keynes suggested, they were the ideas to which politicians and civil servants turned to address the biggest economic crisis since the Great Depression. This book is about why this happened, and how the neoliberal faith in markets came to dominate politics in Britain and the United States in the last quarter of the twentieth century up to the financial crisis of 2008.

The demise of the postwar economic settlement had been hastened by a series of catastrophic events: the Vietnam War, the first oil shock of 1973, and the near collapse of industrial relations in Britain. The Keynes-inspired policies that governments had relied on to deliver a golden age of prosperity and rising incomes for the generation after 1945 seemed exhausted. The

collapse of the Bretton Woods international monetary system in 1971 indicated the end of the experiment with fixed exchange rates. The assumption that there was a relatively simple and manipulable trade-off between inflation and employment, the famous Phillips Curve (named after the New Zealand Keynesian economist William Phillips), proved to be a dangerous illusion. Repeated balance-of-payments crises were the most prominent symptom of the so-called “British disease” of industrial decline. In both Britain and the United States, the appearance of stagflation—simultaneous stagnant growth and inflation—meant that governments felt forced to change course.

An alternative policy agenda was ready to replace New Deal and Great Society liberalism, British social democracy and Keynesian economic policy. New approaches to macroeconomic management, the deregulation of industry and financial markets, the “problem” of trade union power, urban deprivation, and the lack of affordable rents or housing appeared to Keynes’s “practical men” in power as both appealing and available responses to the economic and political crises of the 1970s. Politicians on the right and, just as important, on the left turned to the proposals of figures like Friedrich Hayek, Ludwig von Mises, Milton Friedman, George Stigler, and James Buchanan (all of whom, except Mises, were Nobel Prize winners) when the chimera of stability based on the Bretton Woods Agreement was dispelled. These thinkers were representative of what has become known as neoliberalism. It is hard to gain historical perspective on neoliberalism. The term has become divorced from its complicated and varied origins. It is too often used as a catch-all shorthand for the horrors associated with globalization and recurring financial crises. But transatlantic neoliberalism, as used in this book, is the free market ideology based on individual liberty and limited government that connected human freedom to the actions of the rational, self-interested actor in the competitive marketplace.

Neoliberal ideas had been generated slowly over fifty years or so by “academic scribblers” in Europe and the United States. In the interwar years, neoliberalism emerged from debates among liberals responding to the rise of trade unions, universal suffrage, and wartime administrations that had consolidated late nineteenth-century and early twentieth-century trends toward growth in government and bureaucracy. New political movements, such as the New Liberalism of H. H. Asquith and David Lloyd George in Britain, saw the state not as an obstacle to freedom but as a way to expand it for more citi-

zens through the introduction of new forms of social insurance and pensions. In the United States, progressive reformers drew on new scientific approaches to social problems in Europe. The specter of communist revolution was ever present after the overthrow of tsarist Russia by the Bolsheviks in 1917. A worrying political phenomenon appeared in the form of Mussolini's Black-shirts. In all these trends, many liberals saw threats to existing freedoms.

The appeal of socialism and the prospect of revolution gave added urgency to the debate among economists over the viability of economic planning. In Cambridge during the 1920s, John Maynard Keynes attempted to solve the problem of economic downturns by developing proposals for countercyclical public spending. In Vienna in 1920, meanwhile, leading Austrian school economist Ludwig von Mises elaborated the socialist calculation problem: whether economic resources can be allocated efficiently in a planned economy. This question was later refined by Hayek, Mises' student and Keynes's friend and adversary, who argued that the price mechanism operated as an information processor that sent unique, comprehensible signals to producers and consumers that were impossible for planners to replicate. After the Wall Street crash of 1929, capitalism seemed in apocalyptic crisis. Hayek debated with Keynes his proposal to use fiscal policy to tackle the fluctuations of the business cycle. The argument culminated in the publication of Keynes's *General Theory of Employment, Interest and Money* (1936), which transformed economic policymaking by seeming to offer a solution to recessions.<sup>1</sup>

The Great Depression made many early neoliberals of the Austrian school, the Freiburg school, and the London School of Economics (LSE) accept the need for forms of intervention and social provision to complement the state's primary role as sustainer of the market order. This was true of Hayek, his friend and later colleague at the LSE Karl Popper, and also Henry Simons, a leader of the first Chicago school of economics. In Germany the Freiburg school, who became known as the ordoliberals (after the journal *Ordo*, the movement's leading organ after 1948), sought to harness state power to maintain a market order. In this they departed from laissez-faire doctrines of the nineteenth century and the modern activist liberalism of Lloyd George and Franklin Delano Roosevelt and aimed to reconstruct a *neo*-liberalism that remained true to the classical liberal commitment to individual liberty. Neo-liberalism therefore emerged in the interwar period as a nuanced response to a very different set of conditions—the experience of war and depression,

and the onset of fascist, Nazi, and communist totalitarianism—from those obtaining in the late twentieth century, when the word became a byword for market liberalization and globalization.

After 1945, Hayek and Friedman first helped to create, and then to synthesize, a neoliberal policy program and political strategy. In 1947, Hayek brought a disparate group of intellectuals together in Switzerland to discuss how liberalism could be defended in the face of the challenge of “collectivism”—an all-encompassing term that included Nazi and Soviet totalitarianism, New Deal liberalism, and British social democracy. The group adopted the name the Mont Pelerin Society. Then, in his 1949 article, “The Intellectuals and Socialism,” Hayek drew on the successes of the British Fabian Left to argue that individual liberty within the framework of free markets could only be protected by an elite-driven and elite-directed strategy of opinion formation. Like Keynes, Hayek believed that ideas seeped into policy only very slowly. Therefore, the way to ensure that free markets triumphed was to focus on changing the minds of the “second-hand dealers in ideas,” the intellectuals. The strategy was clear: neoliberal thinkers needed to target the wider intelligentsia, journalists, experts, politicians, and policymakers. This was done through a transatlantic network of sympathetic business funders and ideological entrepreneurs who ran think tanks, and through the popularization of neoliberal ideas by journalists and politicians.

In the following decades, the neoliberal center of gravity shifted from Europe to the United States, especially the University of Chicago. Hayek’s status as a founding thinker was unchallenged, but it was Milton Friedman, a tireless public intellectual and campaigner for free markets, who showed the most talent as a proselytizer of neoliberalism. Other Chicago economists, among them George Stigler, Aaron Director, Ronald Coase, and Gary Becker, opened up new areas to free market analysis. Hayek was also based in Chicago during the 1950s in the Committee on Social Thought (his Austrian economics not being entirely welcome in the Economics Department). He, too, was relentless in his policy activism. Allied to Chicago economics was Buchanan’s and Tullock’s Virginia school of public choice. Rational choice theory, inspired by William Riker at the University of Rochester, like the Chicago and Virginia approaches, also used utility-maximizing and rationally based economic models to explain politics, government, and other areas of social and political life. These U.S.-based neoliberals formed the intellectual nodes at the heart of a transatlantic network of think tanks, businessmen, journal-

ists, and politicians, who spread an increasingly honed political message of the superiority of free markets.

The sharpened neoliberal philosophy that resulted from these developments should be separated from the academic contributions made by Austrian, Chicago, and Virginia school economists. Friedman himself insisted that his technical and empirical work as an economist was distinct from his political philosophy and activism. His research was supposed to be open to rigorous empirical testing and was therefore theoretically open to change; his advocacy of the virtues of markets, by contrast, was a product of his strongly held political beliefs. But undoubtedly, Hayek's, Friedman's, Stigler's, Buchanan's, and Tullock's free market views were lent credence by their academic achievements. Their scholarly success meant that politicians, public officials, and civil servants were much more likely to take neoliberal ideas seriously when they resonated with a new set of problems, just as Keynes's ideas had during the Great Depression.

In the mid-1970s, neoliberal insights into macroeconomic management and regulation first took hold in the administrations of Democratic president Jimmy Carter and Labour prime ministers Harold Wilson and James Callaghan. Carter began to deregulate the transportation and banking sectors, and appointed Paul Volcker chairman of the Federal Reserve. After 1975, Wilson, his successor Callaghan, and Chancellor Denis Healey oversaw deep spending cuts and the abandonment of the long-cherished postwar goal of full employment in favor of targeting inflation. These neoliberal-influenced policies broke through on the left because liberalism, social democracy, and Keynesianism seemed toothless in the face of stagflation. But even in the 1960s there was evidence of a change in approach among British and American policymakers across a range of fields, especially with regard to trade unions, welfare, housing, and urban development. There was a greater willingness to look at market-based solutions in areas of perceived policy failure, such as affordable housing and urban renewal.

Despite this evidence of incremental policy change, the neoliberal legacy would not simply be the instigation of a gradual shift away from reliance on state provision to experimentation with markets. Instead, the initial appeal of neoliberal proposals led ultimately to a widespread acceptance, by the 1980s, of an overarching philosophy of free markets. This was unnecessary. That certain neoliberal proposals spoke to the problems of the 1970s—stagflation,

worsening industrial relations, the breakdown of antipoverty and welfare strategies, and the collapse of economic competitiveness—did not make the larger faith in markets an essential accompaniment. Indeed, it was the boundless belief in markets and deregulation that, a generation later, led to the collapse of the international financial system in 2007–8. Moreover, the philosophy of markets contrasted with the more compromising positions of the early neoliberals themselves. This leap was made by an energized political Right after the elections of Margaret Thatcher in 1979 and Ronald Reagan in 1980. The way in which neoliberal ideas—about individual liberty, free markets, and deregulation—translated into electorally successful programs in Britain and the United States between the 1940s and the 1980s is the story of this book.

### **The Three Phases of Neoliberalism**

The history of neoliberalism has at least three distinct phases. The first lasted from the 1920s until about 1950. The term began to acquire meaning in inter-war Europe as the Austrian school economists and the German ordoliberals sought to define the contours of a market-based society, which they believed was the best way to organize an economy and guarantee individual liberty. “Neoliberal” was embraced by participants at the famous Colloque Walter Lippmann, organized in Paris in 1938 by the French philosopher Louis Rougier to consider the implications of Walter Lippmann’s book, *The Good Society* (1937). The term was chosen because it suggested more than a simple return to laissez-faire economics. Instead, neoliberalism would reformulate liberalism to address the concerns of the 1930s. Present, among others, were Hayek, Alexander Rüstow, Wilhelm Röpke, and Mises, as well as the French economist Jacques Rueff and the Hungarian British polymath Michael Polanyi. These men, along with others from Europe and America, would later form the Mont Pelerin Society with Hayek, Röpke, and Albert Hunold in 1947.

The influence of Mont Pelerin liberalism was apparent in Milton Friedman’s essay, “Neo-liberalism and Its Prospects,” published in 1951.<sup>2</sup> Though little noticed and in many ways oddly unrepresentative of his thought, Friedman’s article can be seen in retrospect as an important bridge between the first and second phases of neoliberalism, between the concerns of the pre-

dominantly European founding figures, located in Austria, London, Manchester, France, Switzerland, and parts of Germany, and a subsequent generation of thinkers, mainly though by no means all American, located especially in Chicago and Virginia. Of course, the “first Chicago school” of economics, comprising Frank Knight, Jacob Viner, and Henry Simons, played its part in neoliberalism’s formation, but most early neoliberals were preoccupied with European concerns.

The second phase of neoliberalism lasted from 1950 until the free market ascendancy of Thatcher and Reagan in the 1980s. At the zenith of New Deal liberalism and British social democracy, when neo-Keynesian approaches to economic policy were at their height, much of this period was a superficially lean time for neoliberals. Outside Germany, they lacked concrete political success in the 1950s and 1960s. Instead, neoliberalism generated intellectual coherence and matured politically. It grew into a recognizable group of ideas, and also into a movement. An increasingly confident group of thinkers, scholars, businessmen, and policy entrepreneurs developed and refined a radical set of free market prescriptions and promoted their agenda. Ironically, it was also in this period that the use of “neoliberal” by its proponents became less common. This was odd at a time when American neoliberal thinkers in particular were defining it ever more precisely in the spheres of industrial organization, monetary policy, and regulation. But this was probably because the term meant little in an American context.

Characteristic of the Chicago approach was the “methodology of positive economics,” out of which emerged Friedman’s revival of monetarism and Stigler’s theory of regulatory capture. This empirical bent was allied to new theories and research endeavors, subsidized by sympathetic business finance and developed in the 1950s and 1960s, about the relatively harmless nature of monopoly and the positive role of large corporations. From the Chicago perspective, the more worrying manifestation of monopoly was trade union power. The Chicago approach marked a sharp contrast, however, with European neoliberalism and even with the adherents’ own departmental forebears, such as Frank Knight, Jacob Viner, and, most important, Henry Simons. German ordoliberals, for example, always took the need for robust antimonopoly policies seriously. In parallel with the technical work of the Chicago economists, Friedman’s polemical arguments, put forward in *Capitalism and Freedom* (1962)—the “American Road to Serfdom,” as Philip Mirowski and Rob



Van Horn have called it—presented the market as the means both to deliver social goods and to deliver the ends, the good life itself.<sup>3</sup>

A third phase of neoliberalism, after 1980, was driven by the advance of an agenda of market liberalization and fiscal discipline into development and trade policy. Neoliberalism broke out of the predominantly North Atlantic and Western European confines of elite academia and domestic national politics and spread into many global institutions, especially in the former communist countries and the developing world. Its principles were adopted by economists and policymakers of the International Monetary Fund (IMF), the World Bank, the World Trade Organization (WTO), the EU, and as part of the North American Free Trade Agreement (NAFTA). The 1980s and 1990s were notable for the notorious “structural adjustment” policies pursued through these institutions and agreements. These were summarized in 1989 by the British economist John Williamson as the now renowned “Washington Consensus” and included tax reform, trade liberalization, privatization, deregulation, and strong property rights.<sup>4</sup> The certainty with which such policies were introduced has been much criticized by economists such as Joseph Stiglitz and Paul Krugman, as well as by uncompromising opponents of capitalism in the antiglobalization movement, which famously erupted at the WTO meetings in Seattle in 1999.

This book focuses on the second phase of neoliberalism. During these years the early debates about the proper relationship of the market to the nascent welfare state, or about the “compatible” economic interventions envisaged by Karl Popper’s theory of “piecemeal social engineering,” coalesced into a complete rejection of economic planning, social democracy, and New Deal liberalism. A moderate tone had characterized books like Hayek’s *The Road to Serfdom* (1944) or Popper’s *The Open Society and Its Enemies* (1945), and the programs envisaged in Lippmann’s *The Good Society* (1938) or Henry Simons’s “Economic Policy for a Free Society” (1946). Such works were fairly positive about the need for social and welfare safety nets. But after the formation of Hayek’s Mont Pelerin Society in 1947, neoliberal scholars began to depart from such accommodations, which were a legacy of the 1930s and the 1940s, and a position less troubled by doubts about the virtues of markets emerged.<sup>5</sup> More strident advocacy of free markets, deregulation, and the power of incentives for rational expectations came from Chicago, Virginia, and Rochester. Such ideas were pushed by think tanks such as the Institute



of Economic Affairs (IEA) or the American Enterprise Institute (AEI) in the 1950s and 1960s.

Although the theory from Chicago and Virginia became cruder and the pens of Friedman, Stigler, and Buchanan grew stronger in their valorization of the market after 1950, the concomitant effect in the political sphere was that neoliberal ideas became clearer and more stark. For example, bodies like the IEA and the AEI argued that social and economic inequality was necessary as a motor for social and economic progress. (Hayek, too, in his later work developed a more “evolutionist” approach to social and political philosophy.)<sup>6</sup> A simplification of the message helped neoliberal ideas gain significant purchase in the public debates that accompanied the varying crises of liberalism and social democracy of the 1960s and 1970s, something their champions, such as Friedman, were acutely aware of. Simplicity added force to neoliberal messages and meant policymakers noticed, particularly when the economy on both sides of the Atlantic changed for the worse.

Neoliberalism had the added appeal of appearing at one with traditions and myths of American individualism. Support for neoliberal policies from politicians such as Barry Goldwater and Ronald Reagan did not mean they thought of themselves as neoliberal. In the American context, neoliberal ideas usually crept in under the radar, subsumed under the banner of rugged individualism or libertarianism, a movement distinct from, though overlapping with, conservatism. These two traditions were expertly fused with other forms of social and religious conservatism by Reagan. An important dimension of this phase of the history of neoliberalism was, therefore, how politically palatable, mainly economic neoliberal policy prescriptions combined with forms of social and cultural conservatism reacting strongly to 1960s liberal permissiveness. It was a combination that ultimately attracted policymakers and the public in the United States after 1968.

Some observers, especially politicians involved in the Conservative (British) and Republican (U.S.) administrations of the 1980s, have been skeptical of Keynes’s argument that “academic scribblers” influence politics, arguing instead that the economic reality of Britain and the United States led to the election victories of Thatcher and Reagan. In essence, the policies were successful because they were the right ones. Yet the historical process described here, whereby ideas broke through to be adopted by political parties, provides a perfect example of how ideas move, change, become distorted, and

sometimes even mix with their polar opposites in the messy world of electoral politics, policy, and government.<sup>7</sup> Unlike the histories, memoirs, and commentaries that have sought to paint a cosy picture of inevitability or triumph in the rise and success of New Right politics, much of the research presented here shows just how unpredictable, patchy, and surprising were the ways in which the neoliberal influence was felt. But before beginning this story, it is essential first to consider the distinctive development of neoliberalism as a conceptual category in history and in wider public debate in order to situate the arguments presented in this book.

### Neoliberalism and History

As political scientist Rachel Turner has pointed out, the term neoliberalism is used with lazy imprecision in both popular debate and academic scholarship.<sup>8</sup> The outlines of the term's history are widely assumed, although usually without a clear understanding of what is meant by the label. This is perhaps unsurprising as historians have only just begun to examine its genesis and assess its real significance. The problem of definition is further complicated because liberalism, neoliberalism, "New Niberalism," New Democrats, New Labour, and neoconservative all mean different things on either side of the Atlantic.

Efforts at definition, such as Philip Mirowski and Dieter Plehwe's edited volume, *The Road from Mont Pelerin* (2009), have emphasized the dynamic nature of neoliberalism. The essays focus on a "neoliberal thought collective," which is deliberately confined to the scholars and theorists of the Mont Pelerin Society. There is a welcome rigor in limiting discussion of neoliberalism to the society, its members, and their output, given the flabby use to which the term is often put. Yet such a narrow definition risks missing some of its larger political significance, especially in the second phase of the history of neoliberalism. The term neoliberalism is used more broadly in this book. Rather than being attached to a specific group of scholars and politicians of any single organization, the book deals with neoliberalism both in terms of the thinkers and ideological entrepreneurs who put Hayek's strategy into action and in terms of the application of neoliberal ideas after 1970. It therefore

complements the debates involving the Mont Pelerin Society and moves beyond them, into wider politics.

Neoliberalism was a conflicted political movement. The kind of purposeful action evident in the statecraft of Margaret Thatcher and Ronald Reagan sometimes conflicted with the ideal of a market-based organicism, particularly apparent in Hayek's evocations of Edmund Burke.<sup>9</sup> Politicians like Margaret Thatcher, Ronald Reagan, Jack Kemp, and Nigel Lawson (none of whom were members of the Mont Pelerin Society) argued that their policies formed part of a lineage that stretched back to the classical liberal political economy of David Hume, Adam Smith, David Ricardo, and the liberals of the Manchester school, Richard Cobden and John Bright. This trajectory they also saw as building on the ideas of Hayek, Friedman, and Buchanan in more recent times.<sup>10</sup> Such claims reflected a distinctive view of the history of liberalism; they signified the appropriation of certain neoliberal tropes. These politicians, for example, liked the liberalism of John Stuart Mill's *On Liberty* but not his *Utilitarianism*.

Neoliberals, whether authoritarian or libertarian, distrusted the "New Niberalism" of L. T. Hobhouse, or that of William Beveridge and John Maynard Keynes, for its faith in government intervention. They also disliked Lyndon Johnson's Great Society and the British social democracy of Clement Attlee, Nye Bevan, and even Conservative Rab Butler (the "But" in "Butskellism," the famous description given to postwar British politics by the *Economist's* Norman Macrae). Above all, they hated Franklin Roosevelt's New Deal. The political heterogeneity of neoliberalism, just like the variety of scholars and disciplines associated with the Mont Pelerin Society itself, calls for serious historical explanation. How *did* neoliberalism come to have a much wider meaning than that which Hayek and his followers and supporters might have wished for during their debates and meetings of the society?

While neoliberal ideas certainly did bear many superficial similarities to classical liberalism and the laissez-faire liberalism of the Manchester school, they also contained important elements not present in earlier forms of liberal thought. As recent scholarship has begun to show, the early neoliberals—in Austria, Paris, Switzerland, and Germany, at the LSE, and in Manchester and Chicago—were clear in their criticisms of both classical liberalism and what they perceived as the excesses of laissez-faire.<sup>11</sup> Subsequently, in the postwar decades, neoliberal scholars, politicians, and policymakers began to build on

this initial critique in even more expansive ways, in part through a linkage of free markets to freedom per se. Some of the important divergences from, and differences between, earlier forms of liberalism and neoliberal thought are explained in detail in chapter 3.

Until recently, the debate about neoliberalism was dominated by memoir and journalism, which treated it as a political and economic fact rather than as a historical phenomenon in want of explanation. Discussion of neoliberalism has focused on its current reality as a category of existing policy rather than on its origins, development, and (past) effects. A historical perspective has been sorely lacking. Research by historians such as Angus Burgin and Ben Jackson has begun to remedy this state, particularly in relation to the 1930s and 1940s, by thickening our understanding of the animating impulses of the early neoliberals and, by implication, of the contrast between these early years and what came later. But despite these efforts, the history of neoliberalism remains dominated by two diametrically opposed interpretations, both of which are severely limited.

The first of these is the myth of the historical inevitability of neoliberal success. This myth is fostered not just by the intellectual and political participants, it is reinforced by some historians and social and political scientists. The best and most scholarly example of this approach, applied particularly to Britain, is Richard Cockett's *Thinking the Unthinkable*, which illustrates the central role played by British think tanks in the collapse of the postwar consensus in macroeconomic policy in Britain.<sup>12</sup> On the United States, George Nash paints a nuanced picture of the conservative intellectual ascendancy and in particular the story of "fusionism," the fusion of the different strands of American conservatism advocated and espoused by William F. Buckley and put into practice by Reagan. The book lays bare the bewildering complexity and contradictory nature of the American New Right.<sup>13</sup> Also in this vein have been biographies of the leading political figures, such as Barry Goldwater, Enoch Powell, Ronald Reagan, and Margaret Thatcher, and their memoirs and those of their colleagues, especially Geoffrey Howe, Nigel Lawson, and Alan Greenspan.<sup>14</sup>

Neoliberalism offers a lens through which to view a transformation across the political spectrum, not just of the Conservative or Republican Party. The rightward shift of politics in Britain and the United States is not simply a story

of the rise or success of a particular new brand of conservatism. The success of neoliberal ideas was not a straightforward by-product of the rise of the New Right or the triumph of Thatcherism. The change in economic policy during the 1970s was more profoundly about the success of proposals that transcended narrow party affiliation. The terrible prevailing economic conditions ensured that monetarism, deregulation, and trade union reform acted as Trojan horses for a more polemical neoliberal faith in free markets by breaking through into the policy programs of Carter and Callaghan. The significance of this fact—that accepting the need for changed policies in certain distinct economic policy areas need not have implied the wholesale acceptance of free markets—has largely been overlooked. Much of the historiography fails to connect Reagan's and Thatcher's policies with their respective Democratic and Labour Party antecedents except to say that they were reluctant or forced converts to an alien ideology. Too often the adoption of certain key policies by Labour or Democratic administrations during the 1960s and 1970s is assumed by conservative commentators to have been a sham, or by left or liberal observers to be a source of shame. These views miss important elements in the successes and failures of the neoliberal political project.

A second major interpretation of neoliberalism, popular with its critics, sees it as the monolithic and pernicious manifestation of U.S. power over global policy. In this view, neoliberalism arrived, fully formed in the policy toolkits of Chicago economists, sometime after General Augusto Pinochet's violent usurpation of Salvador Allende's democratically elected government in Chile in 1973, to torment the poor populations of the developed and, especially, the developing world. In this version, the "Chicago boys" in Chile are held to be the first group to push a destructive program of market liberalization, which was subsequently imposed through the "structural adjustment" policies of the IMF, the World Bank, and the U.S. Treasury Department.<sup>15</sup> Friedman and Hayek are identified as the original thinkers and Thatcher and Reagan as the archetypal politicians of Western neoliberalism. Neoliberalism here has a pejorative connotation. The British Marxist geographer David Harvey, for example, argues that "neoliberalization" was really a highly effective form of class warfare on behalf of finance capital, in China as well as in the West.<sup>16</sup> Andrew Glyn has pointed to the crisis of profitability for business during the 1970s as the impetus behind market-based reforms in the

developed world.<sup>17</sup> More popularly, Naomi Klein has referred to neoliberalism as “the Shock Doctrine” of “disaster capitalism,” which feeds on catastrophes such as 9/11, the war in Iraq, and Hurricane Katrina.<sup>18</sup>

Such analyses contain valuable insights, especially in regard to the corrosive relationships among business, finance capital, and political power. Yet they are incomplete. As Mirowski has pointed out, it is a mistake to reduce neoliberal ideas to neoclassical economics as these writers tend to.<sup>19</sup> Neoliberal ideas came to be dominated by Chicago economics in the public mind but were actually a cocktail, united not just by a belief in the superiority of markets—or, more reductively, corporations—but also by a distrust of state authority, intervention, and bureaucracy. Similarly, the intellectual and political strategies pursued by neoliberals in the postwar period opened up new bridges between the academy and politics. A new type of political organization was cemented through the success of the free market think tanks set up in the United States and Britain, such as the AEI, the Foundation for Economic Education, the Institute of Economic Affairs, the Heritage Foundation, the Centre for Policy Studies, the Cato Institute, and the Adam Smith Institute. The men who ran these organizations—and they were all men—F. A. Harper, Leonard Read, Ralph Harris, Arthur Seldon, Anthony Fisher, Ed Feulner, Ed Crane, Eamonn and Stuart Butler, and Madsen Pirie, were ideological entrepreneurs who spread neoliberalism. Their success left a lasting legacy in terms of policy activism that had characteristically different effects in each country.

But neither the “inevabilist” school, on the one side, nor the Marxist or neo-Marxist camp on the other will do. Notable efforts at comparative assessment of British and American policies under Reagan and Thatcher by the political and social scientists Paul Pierson and Monica Prasad aside, the literature fails to view the rise of neoliberalism in its proper transatlantic context.<sup>20</sup> The historiography is patchy and either too insular or too global in scope. Such shortcomings led to misunderstandings about the nexus of Europe, Britain, and the United States, so crucial in the formation of neoliberal ideas, and the crystallization of these ideas in the postwar period. The specifically European problems and traditions central to the intellectual formation of Hayek, Popper, and Mises should not be understated despite their subsequent “Anglicization” or “Americanization.” These influences—for example, the fear of Nazi totalitarianism and the bundling together of diverse opponents, progressive, liberal, socialist, and social democratic politics,

under the label “collectivism”—had a bearing, sometimes indirectly, on how neoliberalism was developed later by American theorists such as Friedman or Buchanan.

The nuances of postwar neoliberalism, the relationship of its political and organizational character to the thought of its main academic representatives, and the way such ideas were mediated through an ideological infrastructure and international network have yet to be fully explored by historians. The transatlantic character of neoliberalism has often been taken for granted without its origins and development being properly excavated. The extent to which neoliberal policy insights differed from neoliberal political philosophy and the ways in which neoliberal ideas took hold in left mainstream politics have not been taken seriously. The degree to which neoliberalism is seen as the ideology of a malevolent globalization by critics has prevented an understanding of the sources of its broad popularity, as it was dressed up in the rhetoric of the Republican and Conservative Parties, among electorates in the United States and Britain.

### **Transatlantic Neoliberal Politics**

At the core of transatlantic neoliberal politics was an economic argument. This was the monetarist critique of neo-Keynesianism and the promotion of free markets. Allied to this, and crucial to its political success, was a reaction to the so-called permissive society that was epitomized by the upheavals of 1968 (in the United States, this coincided with a powerful opposition on the right to the civil rights movement) that was ever-present in the programs of political neoliberals in power. Another dimension of neoliberal politics was the determined prosecution of the Cold War against Soviet communism. But the economic critique was the special motivating force in neoliberal politics. In the midst of the calamities of the 1970s, the economic case against the perceived follies of Keynesian demand management and large-scale social spending in favor of targeting inflation and trade unions carried with it a powerfully compelling logic. Economic ideas were central to Thatcher and Reagan winning power.

Though some of the outlines of the story of neoliberal politics are familiar, this book makes three distinctive historiographic contributions. First, it



complements the existing scholarly literature on conservatism, liberalism, the rise of the Right, and neoliberalism itself, through an emphasis on the underappreciated real significance of the transatlantic nature of neoliberalism—it didn't just happen in different places at the same time, it happened across and between them. Daniel Rodgers in *Atlantic Crossings* (1998) traces a transnational network of fin-de-siècle and early twentieth-century progressives who sought collective solutions to perceived unbridled capitalism in Europe and the United States and shows that the roots of the New Deal lay in shared analyses and answers developed by American and European reformers. Partly inspired by this approach, this book situates neoliberalism in its proper transatlantic context.

The origins of the New Right in the United States and Britain in general, and of the politics of Margaret Thatcher and Ronald Reagan in particular, are sometimes assumed to have been coincidental. Their closeness has been presented as an accident of time, place, and personality. A view encountered among interviewees for this book, such as Martin Anderson and Peter Jay, for example, holds that the importance of this coincidence became manifest only after Thatcher and Reagan took office, not least through their shared approach to the Soviet Union and the Cold War. Alternatively, the existence of a transatlantic connection, often observed simply through the intimacy of Reagan and Thatcher themselves, has been vaguely asserted without proper investigation of its nature. This narrow perspective covers up the deeper associations, parallels, and, most important, the differences between neoliberal politics in Britain and in the United States.

The actual amount of daily policy exchange between the Thatcher and Reagan governments and their members appears to have been limited, though significant.<sup>21</sup> The history of enterprise zones, treated in chapter 7, is an important example of explicit transatlantic policy transfer. The idea traveled across the Atlantic from Britain in the person of Stuart Butler, who moved from the Adam Smith Institute, which he founded in 1977 with his brother Eamonn and Madsen Pirie, to become one of the most senior figures at Ed Feulner's Heritage Foundation in Washington, D.C., after 1979. It is perhaps surprising that there were not more examples like this. But despite the relative paucity of direct exchange, the relationship between the ideas of the two administrations, and their shared histories, are crucial to understanding the political influence and impact of neoliberalism. The divergent priorities of the Thatcher

and Reagan administrations often gave neoliberal policies starkly separate and specific local effects.

Second, the book focuses on the intellectual history of the political development of neoliberal thought. It is based on extensive primary research in archives in California, Washington, D.C., New York, London, Oxford, and Cambridge, including the papers of Friedrich Hayek, Karl Popper, Milton Friedman, the IEA, and the Conservative Party. It also draws on a series of research interviews with politicians, advisers, members of the Reagan White House and Thatcher government, and representatives of the leading British and American neoliberal think tanks. The interviews add color to the narrative and reveal some of the motives and justifications of the participants, but more important, reading between the lines, they illustrate many of the contradictions inherent in the application of neoliberal theory to politics and government. Neoliberal policies were supported by such disparate figures as Chicago economist Henry Simons, Austrian philosopher Karl Popper, Virginia “public choice” theorist James Buchanan, and even Labour Party minister Edmund Dell. Neoliberal political symbols have included Chilean dictator Augusto Pinochet, Conservative politician Keith Joseph, former chairman of the Federal Reserve Alan Greenspan, and arguably even former Democratic president Bill Clinton and British Labour Party prime ministers Tony Blair and Gordon Brown. The frictions implied by these associations illustrate some of the problems already alluded to in reaching any single definition of neoliberalism.

There were, and still are, several neoliberalisms to be discussed, both separately and in combination. This complexity is revealed in the relationships between neoliberal thought and the classical Enlightenment, the French Revolution and conservative reactions to it, the American Revolution and its product, the U.S. Constitution, the liberalisms of Manchester and Mill, and the new political movements of the twentieth century. Addressing these connections provides a clearer view of what it opposed: Marxist and British Fabian socialism, social democracy, the One Nation group and paternalist Conservatism, the New Deal, the Great Society, and totalitarianism of the Left or Right. Such analysis reveals the specific character of varieties of neoliberalism, their roots as well as their orientations in power. A focus on ideas allows a greater appreciation of the limits of neoliberal influence and challenges the loose use of the term neoliberal as a general conceptual category.

The third historical innovation offered is a study of neoliberalism as a political movement as well as an intellectual one. It reveals the manner in which a body of thought was imperfectly translated into policy and, ultimately, into politics. The process by which ideas were mixed with power involved compromise, but it also involved the creation of a vast network that achieved a large measure of political influence. In this sense, it is a history of how neoliberal organizations and ideas meshed with the reality of power. What emerges, especially in chapters 6 and 7, is a detailed picture of economic and social policy. How Austrian, Chicago, or Virginia theory was applied to concrete social and economic problems and clashed with or complemented competing traditional, conservative, liberal, or populist electoral imperatives presents a vivid image of the fudges and opportunities of politics. Politicians of different stripes and priorities could pick and choose from a menu of neoliberal offerings. Peter Jay, James Callaghan's British ambassador to the United States between 1977 and 1979 and economic commentator for the *Times* newspaper, became a monetarist from the late 1960s without believing that economic freedom was limited to the pursuit of profit. Jay reminds us that it is possible to believe in the efficacy of competitive markets without wishing for the destruction of the welfare state. The spectacularly symbolic collapse of Soviet communism after 1989 obscured this truth and led some Democratic and Labour Party politicians to support policies that continued the agenda of the radical Right.<sup>22</sup>

The side effects of the unqualified advocacy of markets by Thatcher and Reagan during a period of rapid globalization were visible in the communities that had sustained damage from the decline in manufacturing, especially in Britain, in the 1980s. Thatcherite economic policy was often hostile toward the affected groups, many of which had traditionally supported their political opponents in the Labour Party. In the United States, Reagan was able to fashion a new Republican coalition that knit together a seemingly explosive combination of working-class Reagan Democrats with big business interests. The examination of ideas, policy, and politics in a single transatlantic frame brings this messy reality into focus and affords a clearer view of the history of neoliberal politics. Together, these three elements provide a new appreciation of the relevance of neoliberalism in its various guises and results in Britain and the United States.

In 1979, Margaret Thatcher became British prime minister, and in 1980 Ronald Reagan became president of the United States. Despite different

cultural inflections and national contexts—the legacy of slavery and segregation in the United States, immigration and empire in Britain, and a federal system in contrast to a centralized government—each entered office with a manifesto based on free markets and a critique of the social democracy and New Deal liberalism that had dominated political culture in both countries since the war. In Stuart Hall's famous phrase, each constructed an electorally potent politics of “authoritarian populism” that roundly defeated dazed opponents in the Labour and Democratic Parties.<sup>23</sup> Neoliberalism was the coherent, if loose, body of ideas best placed to capitalize on the opportunities created by the social and economic storms of the 1970s. Deep-seated social and economic trends had erupted into crises, dislocation, and urban breakdown. But later on, the electoral successes of Thatcher and Reagan during the 1980s enabled a wholesale political and philosophical shift to a new neoliberal ideology based on markets. The move was away from a belief in the efficacy and moral power of government and toward an unguarded faith in the individual, and in free markets as the deliverer of freedom.

Thirty years after this breakthrough moment in the 1970s, it was clear that faith in markets had outstripped the enthusiasm even of many of the leading neoliberal advocates of the postwar decades. During the frenzy of the financial crisis of 2007–8, neoliberal ideas—defined by a guileless faith in the efficiency of markets and their virtues—were blamed for the greed apparent on Wall Street and in the City of London. Widely held beliefs about the unquestioned superiority and self-correcting nature of the market, espoused by those such as former head of the Federal Reserve Alan Greenspan, had created a deregulated financial sector that brought the international economic system to the point of collapse. Despite a brief resurrection of neo-Keynesian stimulus packages to aid recovery from the credit crunch, in early 2009, the dominant impulse among British and American policymakers was to return to the pre-2007 status quo rather than to attempt a root-and-branch reform. This was obvious in the refusal of either the British or the U.S. government to challenge seriously the financial sector in the aftermath of a glaring example of unregulated market failure. Instead, the same economic technocrats who had presided over the policies that had contributed to the crisis in the first place were tasked with cleaning up the mess. Former members of Clinton's core economic policy team such as Larry Summers and Timothy Geithner, for example, became respectively director of the National Economic Council

and treasury secretary under President Barack Obama after Obama's election in 2008.<sup>24</sup>

As Paul Krugman, another Nobel Prize-winning economist, put it in his retrospective assessment of the life and achievements of Milton Friedman, the “laissez-faire absolutism [promoted by neoliberals like Friedman] contributed to an intellectual climate in which faith in markets and disdain for government often trumps the evidence.”<sup>25</sup> Such evidence, as we will see, reveals a decidedly mixed record in the two areas this book deals with in detail—macroeconomic strategy, and affordable housing and urban policy. As the economic sociologist Jamie Peck has argued, the ideal of the pure free market has always been unattainable, as utopian an idea in its own way as the Marxist illusion of a classless society.<sup>26</sup> The political, theoretical, and cultural transformation wrought by neoliberal politics after the 1970s brought with it a series of social and economic consequences, not least in the failure of successive governments to consider the broken communities their policies left behind. Such a radical change in political culture and public debate from social democracy to a market-driven society was not planned or mapped out in advance. Luck, opportunism, and a set of contingent circumstances played the most crucial roles. Above all, it was far from inevitable.