"NEW" AND "OLD" IN ECONOMIC NEOLIBERALISM

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Abstract: In the evolution of economic history, the economic neoliberalism can be considered one of the most important. On the one hand, neoliberalism is a promoter of freedom in decision making process and competition. On the other hand, the market and its capability to supply information for the individuals and firms represents one of the central pillars for economic growth, development and profitability. Finally, we cannot ignore the diversity of neoliberal ideas, the number of promoters, and the global extension of neoliberalism. For these reasons, we consider that a short incursion in the history of neoliberalism is also actual and necessary. In the recent evolution of the neoliberal doctrine we can mention several important stages in the 20th century. During the first stage – between the first and second decade - Mises revived the School of Vienna, in his attempts to combat the concepts strongly promoted in the economic theory by the socialist doctrine. The second stage, comprised between the third decade and the end of the fourth decade, was an unfavourable period, during which the concepts of liberal orientation were strongly criticized. The third stage of the neoliberalism evolution, as a doctrine, can be placed between the last part of the fourth decade and the end of the fifth decade, having as object of debate the criticizing of the concepts launched in the economic literature by John Maynard Keynes. The fourth stage meant the entry of neoliberalism in a shadow cone, which lasted from the beginning of the 1950’s until towards the middle of the 1970’s, due to the popularity “enjoyed” by keynesism. The failure to apply the keynesist theories, declared in the second half of the 1970’s, meant the entry of neoliberalism in an extended stage of development, which lasted until towards the end of the first decade of the 21st century. After year 2008, there are voices stating that the neoliberal principles are unable to find the answer to the world economic crisis and that, in fact, their promotion to such a wide scale contributed to this negative evolution of the economy.

Keywords: economic thought; neoliberal paradigm; economic neoliberalism.

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1. General aspects regarding the development of contemporary neoliberal paradigm
The first aspect to is the idea that neoliberalism has as basis the need to grant greater freedom to economic agents, in view of ensuring the conditions for achieving an efficiency level as high as possible in the current activity, although this freedom is reached by imposing a certain kind of limits (Braunstein & Pepin, 2000). For the neoliberals, competition represents the essential condition for ensuring real
economic freedom. In what concerns the state’s role, the neoliberal theories show that one of the reasons for its existence is that of being an intervenent in protecting competitive relations, in view of ensuring the liberalism of the market relations. A central pillar of neoliberalism is constituted by the role of informatic system assigned to the market.

In this mission, the market must transmit the information from the consumer to the producer and vice-versa, such as information is decentralized to the level of each individual. Thus, the evolution of each economic agent, regardless of its dimensions, depends on the consumers’ orientations and on the volume of goods and services purchased by them.

The understanding of the characteristics of contemporary neoliberalism requires the previous pointing out of some of the crucial moments which marked the theoretical and methodological development of the doctrine (Zirra, 2013). The first of them, and probably the most important, is year 1938. Then was held the meeting of the Walter Lippmann Colloquium, after which in 1936 was published the Keynes’s work, *The General Theory of Employment, Interest and Money* (Nica, 1997).

The ideas promoted in year 1938 were resumed in 1947. On the date of April 8th, in Mont–Pellerin was held the reunion of several Western specialists, from different fields, as a result of the initiative of three great personalities of that period, respectively Friederich A. Hayek, Ludwig von Mises and Wilhelm Röpke.

Throughout the evolution of neoliberalism, different Schools and economic theories were sketched, which were enriched as this doctrine won new adepts. German neoliberalism, or ORDO–liberalism, was promoted within the Freiburg School, created by Walter Eucken. Among the representatives are Franz Böhm, Ludwig Erhard, Wilhelm Röpke, etc. The representatives of this School were promoters of market social economy. The School of Vienna, also called the Austrian School, was another strong European centre within which neoliberalism manifested and developed. Carl Menger was the creator of this school, in the second half of the 19th century.

Together with Carl Menger, Friederich Hayek and Ludwig Mises are two renowned representatives of the Austrian current, thanks to whom intransigent liberalism subsequently became the main trait of neoliberalism. In the United States of America, the neo-classical theory was revived towards the end of the 1950’s, being associated with the re-emergence of the liberal doctrine, due to the economists within the Chicago School, established by Frank Knight during the inter-war period (Hausman, [1984] 1993). Subsequently, the Chicago School was lead by Milton Friedman and Herbert Alexander Simons, among the promoters being also Hayek. As can be seen, the diversity of ideas of neoliberal orientation is great. For this reason, is necessary a clarification of the concepts of neoliberal origin, such as hereinafter we shall refer to several of the contributions, we believe, representative for the theoretical and methodological development of contemporary neoliberalism.

2. The main contributions of "old" neoliberalism

Friederich Augustus von Hayek (1899-1992), eminent representative of the Modern Austrian School, studied under the coordination of Friederich von Wieser, being a colleague and protégé of Ludwig von Mises. Hayek had an immense contribution to the popularization of Austrian neoliberalism within the Anglo-Saxon countries (Klein, 1999). Hayek’s first concern has as initial impulse his desire to contribute to Austria’s social and economic development, which, due to the world events, had reached a
condition of accentuated poverty. In these conditions, Hayek’s leaning towards the socialist orientation current, which has become very visible during that period, may be considered natural. In a second stage, Hayek started from one of the theories launched by Mises in the *Theory of Money and Credit* (1912), according to which the value of money is subjected to the theory of marginal utility, same as the value of any economic good. On this basis, Mises elaborated a theory of economic fluctuations, specific to the field of industrial production.

At the beginning of the Second World War, together with many of the Austrian School’s representatives, Hayek left Vienna, becoming in 1931 leading professor of economics and statistic within the London School of Economics. From this position, criticizing the *Treatise on Money* of John Maynard Keynes, Hayek appreciated that his theoretical and methodological efforts to promote an inflation-reducing strategy were laudable, in spite of the fact that he did not agree the theories promoted by his contemporary fellow. In 1950, Hayek joined the representatives of the Chicago University, within which was functioning the so-called Committee on Social Thought. We must mention that during the starting period of the 1950’s, in a context more than favourable to the development of the keynesist doctrine, neoliberalism entered a 20-year long period of „hibernation“. The moment that many consider especially important for the revival of the neoliberal paradigm is that when F. A. Hayek became the Nobel Prize winner for Economics in year 1974. In the specialty literature it is considered that one of Hayek’s most important contributions to the development of the economic thought is the *Theory of economic cycles*. In this area, the object of his interest was the relation existing between the fluctuations registered in the field of the work force occupation and of the production of economic goods, on the one hand, and the evolutions in the capital structure, on the other hand (Klein, 1999).

Having as basis the theories promoted by Böhm-Bawerk in the field of capital, Hayek shows that, in fact, the economic structure of production is directly determined by the characteristics of the capital goods, with reference to their characteristics regarding the substitution ability, complementarities, durability, etc. This idea was stated by Hayek in *The Pure Theory of Capital*, published in 1941 in Chicago.

Hayek was criticizing the Theory of general balance elaborated by L. Walras and W. Pareto, saying that an economic theory formalized from the mathematical viewpoint, as in the field of natural sciences, cannot be built (Beaud & Dostaler, p. 64), especially when it is a matter of such a difficult problem as the use of the work force. During the 1920’s, he was influenced by the Swedish School.

According to Hayek, the market, as self-established order, results from the interaction between the individual economic agents and from the coordination of the information circulating among the economic agents, which are at the basis of their decisions. The fundamental elements of Hayek’s conception are individualism and economic order. In his opinion, any worker of the individual order is not concerned only with the relative salary he expects from the different uses of his abilities and from the resources corresponding to the relative utility of the efforts made (Hayek, [1949] 1952).

In Hayek’s vision, the prices system must be seen as a mechanism for communicating information, if the understanding of the manner of its functioning is desired. Hayek considers that only freedom allows the individual to pursue his own needs and to make optimum decisions in what concerns him. The fundament of freedom, in which distinctive personalities and ambient environments can be created, is private property (Hayek, 1988).
The concerns expressed by Wilhelm Röpke (1899-1966), regarding economic cycle, the criticism of keynesism, national and international welfare, monopole, economic theory and social theory, etc., gathered around the idea of rejecting the concept of collectivism in all its aspects, respectively in the economic, social, political etc. fields, in the light of the ethical fundamentals of the markets established on the basis of spontaneous order (Ritenour, 1999). Röpke was a defender of the principle according to which crises are not a product of free societies, but of state interventionism in different forms. In another order of ideas, Röpke was a renowned personality of the period following the Second World War, having an important role in influencing the strategic decisions regarding Germany’s economic reform, as well as in the evolution of the American economic policy of conservative orientation. Publishing in 1936 the volume *Crises and Cycles*, Röpke stated that economic cyclicity (Ritenour, 1999) has as first factor of influence the disturbances of the „process generating long-term investments”, respectively of the “industrial fields destined for producing capital goods”. In what concerns the attitude towards the keynesist theory, Röpke criticized the concept of full occupation, indicating that the forced preservation of the interest rates at a low level, with the propagated purpose of increasing the occupation degree, can have no other consequence than the triggering of an accelerated inflationist process.

In 1947, together with Mises and Hayek, Röpke organized an international colloquium, to which he invited experts from different fields (economics, politics, sociology, philosophy, history etc.), for the declared purpose of consolidating the notion of freedom, in its different meanings. The result of this colloquium was the establishing of the *Mont–Pellerin Society*. Another aspect clearly indicating Röpke’s opposition towards the keynesist theory is revealed in the volume *Economics of the Free Society*, published in 1963, also in Chicago. In this book, the author says that one of the most „harmful” ideas expressed by Keynes is that according to which the „economic system is part of a supra-mathematized mechanical device”.

To the same extent, Röpke manifested against the application of the Marshall Plan for the purpose of the economic reviving of Europe, deeply affected from the economic and social point of view by the unravelling of the Second World War. We cannot avoid mentioning that Röpke was also a contester of monopole. Defender and fervent promoter of the free market and society, he stated that large business, created in the name of increasing the efficiency of the economic activity, represent merely another form of collectivism and signify, in essence, the transfer of the economic decision to the centralized level. „Interventionism creates more problems than it solves”, said Röpke in *Economics of the Free Society* (1963). Many voices state that, in fact, the so-called „economic miracle of Germany” after the war is due to Röpke’s influence on Ludwig Erhard (Ritenour, 1999). Röpke himself affirmed that the evolution of the German economy was determined by the creation of specific infrastructure elements, of economic, social, political, administrative, legislative etc. nature, which ensured and, at the same time, favoured the harmonious development of market economy. In 1948, the monetary reform was performed in Germany, by means of the exceptional contribution of Ludwig Erhard.

3. What brings the "new" neoliberalism in economic theory?

both by means of his great contribution to the popularization of Ludwig von Mises's work, and through his opinions regarding the theory of economic cycles. Subsequently, in the same spirit, Hazlitt manifested against what he called the „National Industrial Recovery Administration“, militating against all elements of keynesist nature, which had the destiny to given an impulse to the movement towards the health of the American national economy, strongly affected by crisis. Hazlitt's best known work, which made him very popular including among the economics passionate scholars of nowadays, is *Economics in One Lesson*, published in 1946 in New York. The ideas promoted by Hazlitt in this book and completely of neoliberal nature, the author being significantly influenced by the writings of his „mentor“, Ludwig von Mises.

In the long tradition of the Austrian School, Murray Newton Rothbard (1926-1995) enjoys a privileged position, for three reasons (Hoppe, 1999). First of all, he is considered the last representative of the mainstream current represented by the “old” Austrian School. Secondly, together with Mises, Rothbard is considered one of the most „comprehensive systems’ creators”, as illustrated by his work *Man, Economy, and State: A Treatise on Economic Principles*, published in year 1962. Thirdly, Rothbard is considered „the last and most systematic representative of the Austrian political economics”. These ideas of Rothbard are stated in his work *Ethics of Liberty*, elaborated in 1982.

In what concerns Rothbard’s contributions to the development of the economic theory, we will list, in a synthesized manner, several of them hereinafter. For start, we mention that one of the most important theories launched by Rothbard regards the concept of marginal utility. With respect to the theory of marginal utility, he brought valuable conceptual clarifications in the field. He said that any attempt of cardinal measurement of utility is senseless.

With respect to the concept of welfare economy, Rothbard ([1962] 1993) had a radical approach, reconstructing the entire theory on the basis of two concepts: individual freedom in what concerns the decisions targeting the assurance of the daily life and of human development (individualist self-ownership); individual preferences manifested or expressed within the market (demonstrated preference). The Chicago School was consolidated and stood out at the international level thanks to Milton Friedman’s personality. The representatives of this school were against the increase of the state’s role in economy, idea supported by neoliberals, even if it preponderantly referred to the protection of the free manifestation of competitive relations (Braunstein & Pepin, [1998] 2000). Friedman claimed the importance of the market economy as support of the freedom of choice and of consumer sovereignty. In the American neoliberalism framework different theories emerged, such as, for instance, the *Theory of the supply economy* and the *Theory of rational expectations*. Those who promoted the *Theory of the supply economy* were Arthur Laffer, Norman Ture, Martin Feldstein and Jude Winnicki. This theory highlights the negative effects that the controlling doctrine has on the American economy, which materialized in the discouragement of labour and investments, in the inhibition of private initiative, with serious results regarding the evolution of labour productivity (Sută–Selejan, 1997).

The *Theory of rational expectations* separated from the monetarism of neoliberal nature. The promoter of this theory was John Fraser Muth, who launched the concept in an article published in 1961, with reference to the insurance market and the economic goods’ market. The idea was subsequently taken over and developed by other economists, such as, for example, Robert Emerson Lucas, Thomas John
Sargent or Neil Wallace. They mainly referred to the fact that control is not capable to ensure development, prosperity and economic stability for large time horizons. Those who continued the American neoliberalism development, Mincer, Schultz, Becker and Stiegler, founded the Theory of the human capital. According to this theory, no wealth can be created without the contribution of human resources, which are considered a form of capital which can be administered after the same rules as the physical (material) resources.

As can be seen, the different aspects of neoliberalism show that there is no full coherence of the representative ideas for this doctrine. The specialty literature (Mudge, 2008) indicated that the moment when care neoliberalism was „officially internationalized” is year 1983, when in London was established the International Democratic Union. Among the renowned founding members of this Union, we mention Margaret Thatcher, George H. W. Bush, Jaques Chirac and Helmut Kohl.

4. In conclusion
In the current economic literature it is considered that globalization represents the peak of the neoliberal doctrine. This globalization of the economic policy is not entirely new. In 1920, the promoters of „economic liberalism” tried to reinstate the ambitions of the self-adjustment of the economic system, by eliminating the interventionist policies, which were interfering with the markets’ freedom. The negative consequences of this vision occurred in the immediately following period (1930-1940) and illustrated that the full liberalization of the market system is impossible.

In the 1960’s, the neoliberal doctrine diversified, new theories emerging (the Theory of the rational expectations and the Theory of the supply economy). Then, starting with the 1970’s, during the period of accentuation of the system crisis of the capitalist economy, several currents of „neoliberal orientation” emerged (the monetarist doctrine, the ultra-liberal doctrine, the libertarian doctrine), which started to offer both an explanation for the occurrence of the crisis, and a methodology for overcoming it. With the collapse of the Soviet system at the end of the 1980’s, neoliberalism occupied the centre of the political stage. The basic package of the policies promoted at present contains, in a first stage, the achievement of macro-economic stabilization, followed by the second stage of adjusting the market, in order for it to work efficiently. At present, it is considered that if the equitable development will continue to be left to the self-adjusting markets, the problem of inequity, of the occupation of the work force and of poverty, which currently manifest, will become more dramatic in the new millennium.

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