

Economic Neo-Liberalism and the Meaning of Structural Changes in Global Economy

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Abstract

The paper articulates the relationship between Neo-Liberalism and the understanding of the structural changes in the Global Economy. We argue that Neo-Liberalism, considered in its economic dimension, is not only one of the structural causes responsible for the current financial and economic crisis but also that it has a significant impact on the understanding of the meaning of all the other structural causes, and implicitly of the structural changes global economy is going through. In this sense, our approach, methodologically considered, deals with the conceptual, thus theoretical, articulation of the aforementioned relationship. We maintain that despite market rhetoric, Economic Neo-Liberalism comes along with some non explicit assumptions with regard to the role of the state as such, i.e. the neoliberal state. The broader context of (de)regulation is also considered. Actually, we challenge the already worldwide disseminated idea that deregulation occupies a central place amongst the structural causes of the global economic crisis.

Key words: *(Economic) Neo-Liberalism, structural causes, (de)regulation, financialisation, state interventionism*

JEL Classification: *A14, B2, F59*

Introduction

The main goal of the present paper, methodologically considered, is to articulate the relationship between two problematic fields, namely, Neo-liberalism, especially considered in its economic dimension, on one side, and the structural changes world economy is going through, on the other. We intend to reveal the manner in which the understanding of the one impacts on the understanding of the other.

At first sight, the criticism of the neo-liberal economic policies seems to be, at the same time, raised against Economic Neo-Liberalism as such. It is this apparently unquestioned presupposition that guides our investigation. Consequently, the underlying question is: *to what extent the acknowledgement of the structural causes that led to the current global crisis is, at the same time, a criticism of Neo-liberalism?* Or, in other words, the *critique* raised with regard to the current economic situation is of the nature to shake the (theoretical) roots of (Economic) Neo-Liberalism?

In the following sections we intend to address three issues:

- *In the first instance*, we intend to *conceptualize* the relationship between (Economic) Neo-Liberalism and the understanding of the structural changes of the world economy. The consideration of this particular issue is motivated by the fact that economists used to advance various explanations for the current global crisis without, however, to acknowledge that their selection and their exposition are fundamentally under the influence of the (theoretical and/or empirical) context in which they are advanced. Actually, *we propose to challenge the assumption that Neo-Liberalism may be regarded as a cause of the crisis in line with all the others structural causes*.
- *Secondly*, we make some references with regard to the concept of Neo-Liberalism and its *contestable* nature. We argue that this contestable nature of the concept of Neo-Liberalism is responsible for subsequent misrepresentations and for the more or less appropriate emphasis on the role of the state in comparison to that of the market. This section is supposed to be mainly a literature review. We highlight the fact that market rhetoric of economic Neo-Liberalism is an interpretation of economic reality and that it should not be taken as being the economic reality itself.
- *Thirdly*, we respond to the following question: How is it possible a *critique* of Neo-liberalism? In addition, we emphasize the way in which the unquestioned consideration of the concept of Neo-Liberalism distorts, on occasion, the understanding of the current global crisis, implicitly of its structural causes and changes. We challenge the accepted idea that deregulation is responsible for the current crisis and we provide a positive explanation of its impact.

Economic Neo-Liberalism and the Other Structural Causes of the Current Global Crisis

Let's broadly consider the structural changes that the world economy is going through. Some of them have been manifest in an acute manner (see, for instance, the modifications of production processes or consumer's behavior). Some are still in an emergent stage (see the acknowledged need of reforming the institutional drivers of Neo-Liberalism) and, naturally, some others still need longer period of times to get expression (e.g. the challenge of the theoretical grounds of the current economic arrangements).

Prior to any discussion on the structural modifications of the global economy, there is one significant aspect, we maintain, one should get awareness of. This is connected to the fact that, in their incipient form, *structural changes* were already present at the beginning of the global crisis and of its public recognition (Lehman bankruptcy in 2008). However, the main difference to be outlined between now and then stands in the fact that the tendencies are nowadays much more pronounced in comparison to the moment that marked the burst of the global crisis.

The discussion around the structural changes of the Global Economy reflects, from an analytical viewpoint, a step forward in the discussions on global crisis. The debate around the global crisis is no more about identifying the possible causes, i.e. where they originate. However, we have to insist, this new phase remains highly connected with the analytical effort to adequately tackle the structural causes of the crisis. In order to be able to talk about the structural changes one necessarily needs to be able to (previously) delineate the structural causes. The difference between the two analytic moments rests on the fact that these causes are now supposed to be much more structured. The imperative becomes that of prioritizing them with regard to their importance. In this sense, we believe that emphasis should be added on the relationship between the structural changes and the structural causes, on one hand, and the place Economic Neo-Liberalism has within the system of structural causes of the current economic and financial crisis, on the other.

The identification of the structural causes of the current economic crisis received lately a lot of attention (Tridico, 2012; Crotty, 2009). Tridico, for instance, identifies three types of explanations¹. The first one originates the crisis in the interaction between (i) the financial bubble and the cheap money, on the one side, and (ii) loose monetary policies, on the other. The second one originates it in the saving glut on the global level². The third explanation identifies the “structural roots of the financial crisis in the unfavorable income distribution and in the decline of the wage share over the GDP which, apparently, has weakened consumption and effective demand” (Tridico, 2012, p.18).

With regard to the structural causes of the crisis, we propose to organize them as follows. The *first* category might regard the field of real, non-financial, economy. On the side of the structural causes of the actual crisis, one may acknowledge the distortions of the structure of production and of the perceptions regarding the net wealth on the part of consumers. In other words, both the entrepreneur’s decisions with regard to the lengths of the processes of production and the consumers’ decisions with regard to their inter-temporal patterns of consumption were distorted³. Correlatively, to the extent to which one puts under scrutiny the current structural changes, one may refer to these aspects keeping in view the fact that they are supposed to be considered in the reverse senses that crisis made them manifest. The *second* category of the structural causes might send to the institutional field as broadly considered. Within this category fits the great majority of the structural causes that Crotty (2009) identifies (see the table no.1)⁴. The *third* category sends to the theoretical, ideological, economic framework that favored the evolution to the present situation. It is in this category that one may include the theoretical framework of Neo-Liberalism as being responsible for the current crisis (King *et al.*, 2012; Crotty, 2009).

Table 1. Key structural flaws of the New Financial Architecture (NFA)

1	The NFA was built on a very weak theoretical foundation (i.e. NFA was based on light regulation of commercial banks, even lighter regulation of investment banks and little, if any, regulation of the 'shadow banking system'- hedge and private equity funds and bank-created Special Investment Vehicles).
2	The NFA had widespread perverse incentives that created excessive risk, exacerbated booms and generated crises.
3	Innovation created important financial products so complex and opaque they could not be priced correctly; they therefore lost liquidity when the boom ended.
4	The claim that commercial banks distributed almost all risky assets to capital markets and hedged whatever risk remained was false.
5	Regulators allowed banks to hold assets off balance sheet with no capital required to support them.
6	Regulators allowed giant banks to measure their own risk and set their own capital requirements. Given perverse incentives, this inevitably led to excessive risk-taking
7	Heavy reliance on complex financial products in a tightly integrated global financial system created channels of contagion that raised systemic risk
8	The NFA facilitated the growth of dangerously high system-wide leverage.

Source: Crotty (2009), my compilation.

¹ See Tridico, Pasquale (2012) “Financial crisis and global imbalances: its labour market origins and the aftermath”, *Cambridge Journal of Economics*, 36, 17-42

² Tridico (2012)

³ See Polleit Thorsten and Mariano Jonathan (2011) “Credit Default Swaps from the Viewpoint of Libertarian Property Rights and Contract Credit Default Swaps Theory”, *Libertarian Papers*, Vol.3, Art. No.32, pp.1-17.

⁴ Crotty, James (2009) “Structural causes of the global financial crisis: a critical assessment of the 'new' financial architecture”, *Cambridge Journal of Economics*, 33, 563-580.

One may notice the fact that much of the economic common sense is part of the basic understanding of Neo-Liberalism. This situation is responsible to a great extent for the difficulty of raising an articulated *critique* against Economic Neo-Liberalism. In a distinct line of argumentation, however, one may face the following observation. It is not sufficient to include economic Neo-Liberalism considered as a theoretic and ideological framework amongst the structural causes of the current crisis. In addition to it, we argue, one must acknowledge the fact that it has a great impact on the meaning with which are considered all the other structural causes of the Global Crisis. In other words, we have to pay attention to the fact that even the selection of the main structural causes of the crisis may not be neutral with regard to the theoretical framework within which they are selected. This observation leads us to the following question. How is it possible a *critique* of Neo-Liberalism? Our emphasis is that there is an important difference to be noted between following a critique within the same economical philosophy - Cambell and Pedersen (2001) acknowledge Economic Neo-Liberalism as being committed to a “deep and taken for granted belief in neoclassical economics”⁵ - and quite another thing to make a *critique* of Economic Neo-Liberalism from the point of view of a quite different economic philosophy than the one that underlines economic Neo-Liberalism - e.g. neoclassical vs. Austrian economics – (see Polleit & Mariano, 2011; Salerno, 2012).

The agreement on the structural economic causes of the present economic crisis is prior to any acknowledgement of the structural changes global economy is supposed to undergo. As already highlighted, the difference stands in the fact that we are not looking for possible causes anymore but for a structured account of them. However, some (structural) economic causes are supposed to be more fundamental than others. The importance of these considerations rests on the fact that economic policies, delineated in order to respond to the crisis situation, are defined in accordance with the view on the structural causes.

To have an adequate perspective on the structural causes of the crisis implies not only a simple identification of them but, moreover, an awareness of their hierarchy. If we take a look at the main basic explanations of the global crisis we notice that they were mainly connected with the conditions and the actions of the economic agents on the market. Amongst others, emphasis has been put, for instance, on the inappropriate level of deregulation of the financial market, on the greed and irresponsibility associated with the high risks assumed by the banks, on the high levels of indebtedness on the side of firms and individuals⁶.

On the Concept of Economic Neo-Liberalism

What is, emphasizing the economic side, Neo-Liberalism? It is common nowadays to associate the current Global Crisis with the crisis of Neo-Liberalism, generically considered. However, there is no single understanding of Neo-Liberalism (Boas & Gans-Morse, 2009; Mudge, 2008; Konzelmann *et al.*, 2012; Callinicos, 2012). As Mudge (2008) insists, there is not one Neo-Liberalism but many Neo-Liberalisms. Actually, she conceptualizes Neo-Liberalism at the intersection of three worlds: intellectual, bureaucratic and political⁷. Similarly, Boas and Gans-Morse (2009) distinguish, with regard to the use of the notion of Neo-Liberalism, various phenomena: (1) an academic paradigm, (2) an ideology, (3) a development model and/or (4) a

⁵ Cambell and Pedersen (2001, p.5) quoted in Mudge (2008, p.706); see also Boas & Gans-Morse (2009, p.144)

⁶ See also Tridico, 2012, pp.18-19

⁷ Mudge, Stephanie Lee (2008) “The State of the Art. What is neo-liberalism?”, *Socio-Economic Review*, Vol. 6, pp.703-731.

set of economic reform policies⁸. Lately, one may notice an increased interest in dealing with Neo-Liberalism in terms of “class hegemony” (Duménil & Lévy, 2011; Callinicos, 2012).

On the other side, King *et al.* (2012) see the root of the current problems in the impact of the shift towards free-market economics that started in the 1970s⁹. The meaning of Neo-liberalism suffered over the time an important change (Boas & Gans-Morse, 2009; Doherty, 2011). Initially, it was connected to the Freiberg School of economics, and especially with Ludwig Eckhard. Only later on, Neo-Liberalism was connected with Friedman and Hayek and the *Mont Pelerin Society* (1947)¹⁰. However, we should mention, this society was an eclectic one, containing not only pure liberals but also economists that were sympathetic with interventionism (Hülsmann, 2012). Mises, for instance, regarded it with reserve (so it is inappropriate to connect Austrian economics with economic Neo-Liberalism via Hayek¹¹). By trying to explain the genesis and the evolution of the concept of Neo-Liberalism, Boas and Gans-Morse (2009) make the point that it has undergone a “radical transformation from a positive label coined by the German Freiburg School to denote a moderate renovation of classical liberalism, to a normatively negative term associated with radical reforms in Pinochet’s Chile” (Boas & Gans-Morse, 2009, p.137).

In a simplistic view, Economic Neo-Liberalism can, indeed, be identified with a set of policies and elements. Boas & Gans-Morse distinguish between: (a) policies that liberalize the economy (by eliminating price controls, deregulating capital markets, lowering trade barriers); (b) policies that reduce the role of the state in economy (privatization of state owned enterprises); and (c) policies that contribute to fiscal austerity and macroeconomic stabilization (tight control of the money supply, elimination of budget deficits and curtailment of government subsidies)¹². A similar perspective one may find out with Mudge (2008). She emphasizes the Bureaucratic face of Neo-Liberalism as being expressed in state policies, too¹³. In addition, there is an increased role played by business, finance and white-collar professionals over others elements, such as trade-unions (Mudge, 2008). Given the manner in which one chooses to prioritize these elements and policies the concept of Neo-Liberalism acquires a different meaning. It is in this sense that Neo-Liberalism appears as being if not an inconsistent concept at least a contested one¹⁴. Boas & Gans-Morse (2009, p.140) sustain that the concept of Neo-Liberalism shares the same characteristics as other essentially contested concepts, as democracy and/or populism (Boas & Gans-Morse, 2009, p.140).

One of the most important implications of this character of the concept of Neo-Liberalism of being contestable and thus open to modifications is that, in spite of the fact that it presents a whole range of assumptions with regard to the role played by the market it keeps as non-explicit a whole other range of assumptions with regard to the role of state. In contrast to Keynesianism, in Neo-Liberalism the question to be answered is not anymore *How much State* but *How much*

⁸ Boas, Taylor C. and Gans-Morse, Jordan (2009) Neoliberalism: From New Liberal Philosophy to Anti-Liberal Slogan, *St. Comp. Int. Dev.*, 44:137-161.

⁹ King, Lawrence; Kitson, Michael; Konselmann and Wilkinson Frank (2012) “Making the same mistake again- or is this time different?”, *Cambridge Journal of Economics*, 36, p.1.

¹⁰ See, for instance, Callinicos, Alex (2012) “Contradictions of austerity”, *Cambridge Journal of Economics*, 36, p.70; see also Avsar (2008); Plant (2010).

¹¹ see also Boas & Gans-Morse, 2009, p.150

¹² See Boas & Gans-Morse, 2009, p.143

¹³ See Washington consensus: (1) the privatization of public firms; (2) the separation of regulatory authority from the executive branch, included the independent central bank; (3) the depolitization of economic regulation by insulating regulatory authorities from political influence; (4) liberalization of domestic and international economy by opening markets to multiple service providers; (5) monetarism- the manipulation of the supply of money rather than demand management via fiscal intervention (Mudge, 2008).

¹⁴ see also Boas & Gans-Morse, 2009, p.140

Market?¹⁵ Economic Neo-Liberalism is however nothing more than an interpretation of the economic reality. It should not be taken for it. The potential danger in connection to the current economic developments is that of considering the failure of Neo-Liberalism as being the failure of the market *per se*. The actual crisis of the market economy seems in the eyes of many as leading to a reconsideration of role of the State as such. Konzelmann *et al.* (2012), for instance, investigate four main Anglo-Saxon banking systems¹⁶ and remark divergent experiences. They suggest that the crisis is not as much a crisis of liberal capitalism *per se* as it is of the neoclassical variety that characterizes the British and the American systems (Konzelmann *et al.*, 2012).

Even if the emphasis on the market plays a significant place in the understanding of economic Neo-Liberalism, there is, however, room for the following question. *Which is the role played by the non-market entities in the constituting experience of Neo-Liberalism?* There are several sides to be considered in the horizon of this question:

- (1) Mudge (2008) refers to the economic dimension of Neo-Liberalism using the term *Bureaucracy*. The bureaucratic dimension of neo-Liberalism refers mainly to state policies, that means, as already delineated, liberalization, deregulation, privatization, depoliticization and monetarism (Mudge, 2008, p.704). She refers to Economic Neo-Liberalism as being a *Bureaucracy* in order to highlight the idea that the *neoliberal state* is indispensable in the understanding of the dissemination of market-related elements of the neoliberal economic policies. Neo-Liberalism does not imply the elimination of the state (Mudge, 2008). Next to market, there is the neoliberal state.
- (2) Neo-Liberalism is supposed to be understood as being a (relative) determination of the economic policies at one moment in time relative to the previous period of time and relative to a prior situation. However, the notion of economic neo-liberalism is not sufficient by itself to get a real perspective of its substance. To make things simple, if one acknowledges that a person is higher in comparison to another one, by that very statement he says nothing of persons' highness yet. The fact that Neo-liberalism followed Keynesianism does not mean that (occasional massive) state interventionism was necessarily repulsive to neo-liberals (see also Callinicos, 2012, p.74). King (2012), similarly, acknowledges the initial reaction in the wake of the crisis, Keynesian in nature, and the sharp change in policy track from stimulus to austerity following the attitude of financial market towards the high levels of sovereign debt (see, for instance, the crisis of sovereign debt in eurozone). This argument works against those who might see in the current global crisis a motivation to boldly restate the role of the state interventionism. A negative attitude towards Neo-Liberalism should not be translated through a negative attitude towards the market as such.
- (3) One must acknowledge the increased role of Neo-Liberalism in the internationalization of the profession of the economist. The idea behind this observation is that the international elite in the economic field is the result of the acting neoliberal institutions. Mudge identifies a political institutionalization of dominant schools of economic thought (Mudge, 2008, p.716). The difficulty arises at the moment when the same economists internationally legitimized by the international neoliberal organizations are asked to question the very fundamentals of the economic neo-liberalism order.
- (4) We have to acknowledge the importance that the institutional drivers of Neo-Liberalism (OECD, EU, IMF, WB, WTO) had in the dissemination of the ideas and policies connected with the Economic Neo-Liberalism (Chorev & Babb, 2009; Mudge, 2008; Grabel, 2011; Lane & Maeland, 2011; Helleiner, 2011; Tridico, 2012). The institutional drivers of Neo-Liberalism played an important role in the dissemination of the current ideas via

¹⁵ Mudge (2008)

¹⁶ Australia, Germany, UK, USA

governments and organizations that were “well situated to exert coercitive and normative pressures at an international level” (Mudge, 2008). It is in this context of discussion that Ilene Grabel (2011) refers to the IMF response to the current global crisis as a “productive incoherence”. It means the proliferation of inconsistent and even contradictory strategies and statements¹⁷. It is astonishing to realize the role that these entities played in the very process of promoting the market-related ideas and policies. In other words, one must acknowledge that non-market entities were part of the constitutive experience of Economic Neo-Liberalism. The economic dimension of Neo-Liberalism could not be clearly separated from a political dimension. This fact might denote that market-related ideas came to the front not as much in virtue of their persuasion power but in virtue of an interest of both states and great corporations.

The proof that market rhetoric was not supported by a genuine conviction in the market role comes to the fore if one considers the responses to the crisis. On many aspects they contrasted to the previous assumed position. The deregulation, for instance, previously promoted, was questioned with the burst of the global crisis. The contradiction is eluded only because the political generation in power is not the same that initiated economic Neo-Liberalism.

The actual economic and financial crisis is not pleading against the market as such but on the contrary. The immediate response to the Global Crisis, Keynesian in kind¹⁸, reflects the limited power of state interventionism given the actual economic circumstances. In this sense, the current Global Crisis is referred to as being the *Great Correction*. The real cause of Neo-Liberalism engendered crisis is not too much market, but too much state. This position might be surprising. In what sense too much state when the defining feature of Economic Neo-Liberalism, in contrast to Keynesianism, was the move from '*how much state?*' to the '*how much market?*'¹⁹. If the market is the hard core of Neo-Liberalism, then, one may notice a certain misrepresentation of the function of the market for the manner in which economic problems may be solved. Market as mechanism is only a better solution relative to alternatives from an economic point of view not the best solution of any problem whatsoever.

Too Big to Fail is not supposed to be understood just with reference to Big Banks but also with reference to the State as such. The current financial and economic crisis reveals a new economic sense in which the State (as broadly considered) appears as being Big. The Big State is not anymore big under the quantitative aspect of government expenses or of its presence in the real economy. The focus on the market reveals that the market processes intensifies the effects of the residual presence of the State (again, as broadly considered) in the economy. One of the main lines of interest for neo-liberals was to assure the autonomy of central banks. However, the maintenance of an interest rate well below the natural interest rate and for long period of time induced major and important effects on the structure of the processes of production and on wealth²⁰. The independence of central banks, as part of the neo-liberal project (Mudge, 2008), proved to be a necessary but insufficient condition for the most appropriate monetary policy. Callinicos (2012) remarks a *reshuffling* of institutional responsibilities in the shift from the Keynesian to neoliberal economic policy regimes (Callinicos, 2012, p75). In this sense, the responsibility for steering the economy has devolved, in his opinion, onto democratically unaccountable central banks (Callinicos, 2012, p75). Callinicos writes:

“it is therefore tempting to argue that the shift to austerity demonstrates how deeply entrenched neoliberalism as an ideology has become, and that political, media and academic elites consequently are unable to think beyond the intellectual horizons set by

¹⁷ See Grabel, Ilene (2011) “Not your grandfather’s IMF: global crisis, ‘productive incoherence’ and developmental policy space”, *Cambridge Journal of Economics*, 36, 805-830.

¹⁸ Callinicos, 2012, p. 66

¹⁹ Mudge, 2008, p.724

²⁰ See also Tridico, 2012, p.19

the free-market revolution of the 1970s and 1980s. (...) *Given that most accounts of the economic and financial crisis identify ideologically motivated deregulation, and a more general faith in the self-correcting character of markets as an important factor in policy makers allowing the credit bubble to develop in the mid-2000s, why have elites not started to question neoliberalism?*" (Callinicos, 2012, p.69, my emphasis).

Is It Really Deregulation a Real Cause of the Current Global Economic Crisis?

In this section we intend to shed light on the manner in which the consideration of the theoretical background of Neo-Liberalism affects the interpretation of the structural causes of the Global Crisis. With this aim in mind, we broadly consider the issue of (de)regulation.

One of the characteristics of the pre-crisis global economy was the development of the financial sector. Tridico (2012) views the present crisis as an endogenous one, a crisis of the "finance-led growth regime over the past two decades originating in the failure of the institutions tasked with regulating its mechanisms" (Tridico, 2012, p.18). He maintains that it is by means of securitization and "financial innovation" that financial market was able to insulate itself from risk (Tridico, 2012). There are many others who see *financialisation* as being the main cause of the present economic crisis (Duménil & Lévy, 2011; Callinicos, 2012, Crotty, 2012). Similarly, Helleiner (2011) attributes to the failure to create a *new international financial architecture* two of the key causes of the recent crisis, namely regulatory mistakes and the global imbalances. In addition, he considers that inadequate reforms can set the scene for even more serious crisis to come²¹. Helleiner (2011) maintains that pre-crisis regulation, for example, was too exclusively focused on ensuring the stability of individual institutions without taking enough account of the accumulation of system-wide risks (Helleiner, 2011, p.568). By considering this particular aspect, Callinicos (2012) sees Neo-Liberalism as an economic policy regime that is legitimized by an ideology that holds markets are best treated as self-regulating (Callinicos, 2012, p.67). Moreover, Callinicos (2012) identifies within the apparent uniformity of Neo-Liberalism a variety by referring to state's policies towards the banking sector since the crisis²². He considers that these policy variations are related to differences in the degree of financialisation of the leading capitalist economies (Callinicos, 2012, pp.72-73).

In the same line of argumentation, Crotty (2009) considers that real economy cannot consistently generate the cash flows required to sustain such inflated financial claims. Scheider and Kirchgässner (2009), at their turn, maintain that *deregulation* and/or privatization did not produce the promised benefits and that new regulations are supposed to mean *not necessarily more but definitely better regulation*²³. In connection to this issue, Carrick-Hagenbarth and Epstein (2012) acknowledge potential conflicts of interest rooted in the manner of academic economists of disclosing their affiliations. They contrast the lucrative connections of these academic economists with private financial firms, on one side, and the proffered public policy advice on financial matters, on the other²⁴. This is supposed to explain, in their opinion, why support among many of these economists for strict financial regulation has been relatively weak. It may explain also the pressures that have led so many economists to propose austerity as a solution to the economic crisis (Carrick-Hagenbarth & Epstein, 2012). In brief, deregulation and increasing risk in financial markets, in part via complex financial products, are viewed as having

²¹ Helleiner, Eric (2011) "Reforming the global financial architecture", *Socio-Economic Review*, 9, p.568.

²² See also Peláez & Peláez (2009)

²³ Scheider & Kirchgässner, 2009, p.325.

²⁴ Carrick-Hagenbarth *et al.* (2012) "Dangerous interconnectedness: economists' conflicts of interest, ideology and financial crisis", *Cambridge Journal of Economics*, 36, 43-63.

been contributed significantly to the financial crisis (Carrick-Hagenbarth & Epstein, 2012, Crotty, 2009).

In “Structural causes of the global financial crisis: a critical assessment of the 'new' financial architecture”²⁵ Crotty (2009) argues that the process of financial innovation was accompanied by unintended consequences derived from the nature of the financial instruments the financial market operated with²⁶. He sustains that the structured financial products reached such a level of complexification that made them non-transparent and thus impossible to be correctly priced. In addition, he maintains that: “the piling up of risky assets on bank balance sheets was stimulated in part by *inept regulation*” (Crotty, 2009, p.568, emphasis is *mine*).

The opinions above outlined represent, however, only a side of the coin. All these particular positions with regard to financial instruments - and especially derivatives (CDO, CDS, etc.) - strongly contrasts with the position expressed by Polleit and Mariano (2011) in “Credit Default Swaps from the Viewpoint of Libertarian Property Rights and Contract Credit Default Swaps Theory”. Polleit and Mariano (2011) argue that:

“(…) *sound economic analysis* reveals that CDS are fully compatible with the principles of the free market, and that CDS are not to blame for the disintegration of credit markets – with their tumbling banks, struggling private borrowers and increasingly overstretched government finances. The truth is that CDS provide investors with an efficient and effective instrument for *exposing economically unsound and unsustainable fiat money regimes* and the economic production structure it creates – which, in turn, provokes an (intellectual) counterattack from government officials (and their 'court intellectuals'), who argue for *regulating or even banning CDS*” (Polleit & Mariano, 2011, p.2, my *emphasis*).

We sustain that this radical difference in regarding the role of financial instruments in general, and that of derivatives in particular, should be taken as being the effect of considering the economic reality from two different economic viewpoints. We argue that we have to distinguish between the kind of critics that send to a better application of the basic principles on which Neo-liberalism is based from those that base their critique on a quite different assumptions, and thus on a different economic philosophy²⁷. In spite of the fact that Economic Neo-Liberalism can be criticized by both parts, the critique itself is not done for the same reasons. However, the debate ultimately resorts to the level and the nature of (de)regulation of the financial market.

In *Financial Regulation after the Global Recession*, Peláez and Peláez (2009) distinguish two different views on regulation: (1) the official regulatory view and (2) the finance view. According to the *official regulatory view*, banks used financial innovation to arbitrage regulatory capital²⁸. One of the main critics was connected to the fact that risk-management measurement, analysis and control lagged innovations in structured products²⁹. They consider that decisions connected to the credit magnified through the securitization chain to investors with imprudent leverage in complex CDOs (Pelaéz & Pelaéz, 2009, p.175). From this perspective, the regulatory proposals consist in: creating a systemic regulator, tightening capital and controls on leverage and liquidity exposures, tighter standards for credit contracts, regulation of executive compensation (Pelaéz & Pelaéz, 2009, p.176). On the other hand, according to the *finance view*, the crisis was caused by government intervention. There are two

²⁵ in *Cambridge Journal of Economics*, 33, pp. 563-580.

²⁶ E.g. collateralized debt obligations (CDO), mortgage-backed securities (MBS), mortgage-backed bonds (MBB), credit default swaps (CDS), asset-backed securities (ABS).

²⁷ e.g. Callinicos (2012) vs. Polleit & Mariano (2011)

²⁸ Off-balance SIVs to avoid regulatory capital charges; the “originate and distribute” system that led to lax standards in documentation and verification of mortgages.

²⁹ Pelaéz & Pelaéz, 2009, p.175.

main aspects to be retained here. The first one is the policy impulse represented by the reduction of fed funds rate (Pelaéz & Pelaéz, 2009). Next to the interest-rate subsidy one may acknowledge the gigantic housing subsidy in the USA (see the entry of Fannie Mae and Freddie Mac in the nonprime market). This last aspect is regarded as an “implicit seal of approval by the full faith and credit of the US government”³⁰. In contrast to official regulatory view’s proposals which mainly aim at avoiding financial instability, the finance view pleads for a *balanced regulation* that allows for innovation of financial products, risk management, the efficient functions of banks and financial institutions (Pelaéz & Pelaéz, 2009, p.176). In the following lines our intention is to make a difference between the two positions on regulation delineated above.

Now, we question the general idea that de-regulation of the financial market is one of the main structural causes of the current global crisis. The departure point is that we should not lose sight of the fact that the level of (de)regulation of the financial market has a direct and important impact on the manner in which the financial market shapes its financial instruments. One of the most important criticisms addressed was that these financial instruments have not been transparent and that they did not allowed an adequate appreciation of the risks³¹.

We believe that, indeed, given the level of regulation/de-regulation on the financial market, the costs suffered after the burst of the crisis are, accordingly, greater or lesser in extent. The dimension of the financial bubble has, from this perspective, empirical consequences. However, as long as we have in mind - that means we restrict ourselves to - the structural causes of the global crisis, we have to be aware that some structural causes are much more fundamental than others.

As long as we have in view *structural causes*, we maintain that the level of regulation/de-regulation of the financial market is *irrelevant* for explaining the current financial crisis. This affirmation contrasts to the general line of argumentation disseminated in the media and literature on the topic. We maintain that the level of regulation, indirectly, is responsible only for the level of *the elasticity of the financial bubble*, mainly through the characteristics of the financial instruments that can be developed on the financial market. The acknowledgment that the current global crisis presents a magnitude larger than the previous ones is an aspect of relevance only from a historical perspective. It is not an aspect that might contribute to deepen the understanding of the current global crisis. We argue that, in spite of market rhetoric, Neo-Liberalism allows to non-market entities (e.g. central banks, especially Fed) to play a role that influence almost every decision on the market.

Economic Neo-Liberalism revealed the following paradox: in spite of less state interventionism the magnitude of the economic and financial crisis is greater. Naturally, one might question on the drivers behind this burdensome situation. The government is not only the single non-market constituted entity. Which is the element that inflated the financial bubble that the market itself exponentially magnified? This one is the Fed’s monetary policy and the informally pursued coordinated policies of other central banks of *low levels of interest rates for a long period of time*.

Our contribution to the debate on the structural causes of the global crisis stands *in keeping as distinct the aspects that inflated the financial bubble from those that are responsible for its elasticity as a bubble*. The greater magnitude of the current crisis is explainable through the greater elasticity the financial bubble presents, an elasticity that depends on the type of financial instruments the market operates with. To acknowledge the level of elasticity of the financial bubble is not, however, to acknowledge its fundamental structural causes.

³⁰ Pelaéz & Pelaéz, 2009, p.176.

³¹ Crotty (2009)

Conclusion

In conclusion, we may assert that the main finding of this paper is that Neo-Liberalism is not only a structural cause amongst others of the current global crisis but one that influences the understanding of all others. This particular aspect has a huge impact on the manner in which one prioritizes them and, consequently, defines the economic policies. It is not the same thing to find out a better application of the same economic philosophy that underlines Economic Neo-Liberalism and to question the very theoretic basis of it. We argued that in spite of market rhetoric of Economic Neo-Liberalism, there are others non-explicit assumptions with regard to the role of the state in economy, broadly considered, that allowed the evolution towards the present economic situation in the global economy.

Finally, we sustained that the level of regulation is responsible for the elasticity of the financial bubble but it does not represent an essential structural cause for inflating it. The magnitude of financial bubble is not of explanatory nature for the current global crisis. From a praxeological point of view, it is of no significance that the current global crisis is higher in magnitude in comparison to the previous ones. As long as one's intention is that of giving an account of structural causes, the magnitude of the financial bubble is irrelevant.

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