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PERSPECTIVES

Neoliberalism?

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When I was asked to give a few thoughts this afternoon, I was not too excited because of the term "neoliberal." I would rather shy away from terms for the simple reason that one of the techniques in debating is to put up a straw man and destroy it. We can see this being practiced very extensively in other discussions. As far as can be determined, the term "neoliberal" seems to be identified with the doctrine of a scholarly group called Mount Pellerin Society, which was set up after World War II. One of its agenda was the promotion of a right-wing set of policies. The members of Mount Pellerin Society would probably be willing to be identified with some of the policies that are quite popular among policy observers, especially economists around the world at the moment. However, there are many features of the Mount Pellerin Society agenda that would be conspicuously missing from the policy prescriptions of most economists in the discipline of international economics and development at present. Let me just name a few that should be remembered.

What would have gone into the neoliberal agenda was a proposal for monetarism through low tax rates that is called for by a group of policies that have now come to be termed as the "supply side of economics." They would also want to have a minimal state that denies any responsibility for correcting income distribution or externalities. In economics, externalities lead to market failures and the inability of the market to achieve optimal result. The neoliberal agenda would also espouse free movement of capital internationally. It is therefore clear that there are substantial differences between the neoliberal agenda and the actual proposals of the economists working in international economics and development.

Let me now go to another term called the "Washington Consensus." The "Washington Consensus" was used by John Williamson in a paper that appeared in a volume on economic reforms in Latin America in 1990. Williamson listed down some of the common policy prescriptions to developing countries of most economists who are identified with policymaking bodies and international financial institutions:

1. Fiscal discipline (or the need to keep tight control over public deficit),
2. Reordering of public expenditure priorities (If you were an economist working at the World Bank, there was also a strong emphasis in the late 1970s and early 1980s to reprioritize public expenditures towards basic needs such as education, water, urban services and so on),
3. Tax reform (which comes in many forms although there is an implicit encouragement to use more direct taxes),
4. Liberalization of interest rates (This emerged based on studies done by Robert McKennon in the late 1960s and early 1970s, where he talked about constricted credit sectors),
5. Competitive exchange rate,
6. Industrial restructuring (which could also be equated with trade liberalization and the removal of the most odious protective aspects of industrial policy),
7. Liberalization of inward foreign direct investments,
8. A degree of privatization,
9. Deregulation, and
10. Recognition of property rights (essentially coming out of the prescriptions of Hernando de Sotto).

If you examine these closely, to equate the policies that are often proposed by people in policy practice or involved in the functions of international financial institutions with the neoliberal agenda is either a bit of an oversimplification or a very substantial mistake. These two are certainly different. For example, one of the most glaring differences is in the area of responsibility of the state and governance. The neoliberal agenda would eschew any discussion on how to fix the income distribution of the country. Those who have been involved in the policy debates from the late 1960s to the 1980s would know that this would be the main agenda of the World Bank. Martin Ravallion leads a group in the Bank to work on this issue. In the Philippines, the work of Arsenio Balisacan comes out of his relationship with some of the members of this group.

At the same time, I think it is also fair to say that there has been some discontent with the prescriptions that are somewhat broadly identified with the "Washington Consensus." These were highlighted especially after the Asian financial crisis and the Russian crisis. One of the most vivid critics of this was Joseph Stiglitz, who has won a Nobel Prize for his studies on economics in his book, *Globalization and Its Discontents*. The book of Stiglitz is difficult to summarize so I will just enumerate its key points with the help of Kaushik Basu's analysis. One of Stiglitz's main criticisms is that the concepts that have originated from economists of an earlier period—largely belonging to a school of thought called the Chicago School—left out a lot of realities. In fact, Stiglitz was one of those who changed the economic discipline towards recognizing many of the shortcomings of the Chicago School, which depended a lot on market results among others. For instance, Stigilitz has been one of those who pushed for the importance of credit information—how the credit market cannot be left completely alone in determining some of the solutions for the allocation of credit. The Chicago School tended to assume that the markets are essentially well-behaved and therefore reliable.

Since the late 1960s to the early 1970s, however, there have been many innovations in economic thought pushed primarily by people of that age. Among others, there was Paul Krugman who argued about the need to recognize and adopt new models of international trade. There was also Michael Spence, who talked about markets. In any case, the criticisms of Stiglitz were brought about by the profound disappointment over the Asian financial crisis. The crisis demonstrated a situation that could have been foreseen in economic literature both in banking and international trade. This was the phenomenon of contagion. In banking, this has taken another name. It had not been described in a way that allowed us to forecast and thus prevent or even mitigate the impact of such a profound change in exchange rates, which leads to bankruptcy, bank failures, worsening of income distribution, and others. In the Russian crisis, the problem was caused by extremely rapid and careless privatization that brought about the transfer of resources to private hands and the expansion of corruption within the ineffectual bureaucratic environment.

Hence, the main thesis of Stiglitz was that you cannot allow the international market to become unbridled with its present shape. What we need to do is to discover policy and institutional changes that will install checks on the market. He uses the analogy that markets are not allowed to run unrestrained in a national environment. There are many rules of governance or enforcement that check the activities of people working in the market. Therefore, the absence of a world governance framework in the way trade and investments are carried all over the world is probably a profound deficit that needs to be addressed. It is also important to remember that even in this very critical book of Stiglitz, he still says that globalization should not be abandoned because it has the potential and the actual effect of improving the lives of millions of people (e.g., China and India).

What I am trying to emphasize here is that we need to understand that putting up a straw man and giving it a label is probably an oversimplification that assaults the rational discussion of what you would really like to talk about—the policies a country like the Philippines should adopt or avoid. There is danger in throwing out the baby with the bathwater. Reality is much more complex than simple labels can capture. It is important to understand the policy and its context—a policy that is good in one country may not necessarily be good in another. National characteristics also need to be recognized. Finally, we must recognize that we are operating in a much more different environment with different institutions at different levels of economic evolution.

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The term "neoliberal" is something which I do not understand. I think this is a boogey man, a ghost-like monster that children often believe is real. Any word with four syllables is suspicious. Having professed that

I do not understand what we are talking about, let me instead talk about what I do understand and what sort of work I would want to do. At the moment, I actually spend most of my time at the Development Bank of the Philippines (DBP), supervising three projects. One is a program called "DBP Forests." It involves setting up a PHP-50-million fund that will finance the planting of commercially-viable trees on denuded hillsides. The capital lending and the subsequent income from the new trees will create tens of thousands of jobs and replenish the fund in perpetuity. According to that design, we will be able to grow about 120 million high-value trees using the initial fund. From there, we will continue to grow more trees using income from the earlier investments. You may call this part of the neoliberal project, but I simply call it an efficient and a brilliant financial model for achieving social good.

Another project I handle thing is the Roll On-Roll Off Terminal and Transport System—more popularly known to the public as "Ro-Ro" and to the president, the "Strong Republic Nautical Highway." In DBP, we officially refer to it as the Sustainable Logistics Development Program. This springs from what I think is a very no-nonsense recognition that we are falling behind. For instance, the reason why we trudge after Thailand is the fact that storage and transport remains a problem in this archipelagic economy, whereas Thailand—aside from the fact that it is a contiguous economy—boasts of a number of airports and airliners. The most efficient way to solve our transportation problem is to encourage people to support ports and to invest in ferries that will, in effect, be the floating, movable bridges at a fraction of a cost of fixed bridges. Spillage accounts for 30 percent of the total volume of grains delivered. Fresh produce like vegetables have a spoilage ratio of 40 percent. Again, this is a logistics problem. If we solve this, we do not need to import. This is the reason Metro Manila diet is so infamous for being short on vegetables, which I think causes people to rebel too often. My third area of responsibility in DBP is trust services that involve a lot of dealings in treasury operations for which I am eminently not trained for. That involves having to consciously disabuse myself from many of the romantic little Marxist concepts I picked up from the University of the Philippines under heavily subsidized conditions.

Apart from my work in DBP, I have also been involved in some of the major policy reform programs in the last decade. These include the privatization of the Manila Water and Sewerage System (MWSS). I was working then with the Department of Finance and became part of the team that actually designed the model for MWSS's privatization, where the bidding would be *per de cama*. Instead of bidding for the asset or concession, potential buyers bid based on the lowest rate offered to the consumer. This way, we get an idea of who is performing better. Manila Water remains profitable in delivering water and Maynilad was not managed well. I was also heavily involved in the liberalization of the telecommunications industry. We now have competing companies. We have cable access rates that are higher than any of us would have imagined a decade ago. There are about 35 million cellphone lines in the country. This is very high for a so-called Third World country. If we could further deregulate cable access in combination with new technologies, we should be able to increase our Internet connection rate. I was heavily involved as well in the deregulation of the oil industry. I belonged to a nongovernment organization (NGO) which other NGOs hate because it is allegedly where the so-called "neoliberals" congregate. It is called Foundation for Economic Freedom (FEF) and for a while, Cayetano Paderanga Jr. was the director. The issue that precipitated this group to come together was the oil rollback issue of 1995. In 1995, the oil price increased in a regulated environment. Oil has always been a very political issue in this country. Various groups gathered subsequently: the bishops, *Kilusang Mayo Uno* (May First Movement), League of Filipino Students here in UP, and almost everybody who did not understand how economies work. It was an election year that time, so the government was particularly vulnerable. Hence, with all agitation and marching on the streets, the government eventually agreed to roll back oil prices and absorbed the costs of doing so.

That year, we had a program of budget allocation of PHP 30 billion to support the shortfall in the oil stabilization fund. But subsidizing oil was, in fact, an antipoor and prorich measure. The volume of oil that we imported at rising prices went up by nearly 30 percent, which common sense tells us was a result of price being rolled back. Our oil demand outstripped our real economic growth. People used oil as if it was going out of style and indeed it was. This is a very dangerous signal and it is symptomatic of where we are at the moment and why. It has always been easier politically to subsidize anything than to tax or price correctly. If you do not price correctly, then you should not expect your goods to be valued more or less than its worth in the market. Similarly, in the University of the Philippines, since we do not pay the right price for the education that we get, we do not take it seriously.

During the Estrada years, FEF was involved in pushing for retail trade liberalization. The reason for this was the reality that we have an inefficient and flawed retail trade system—protected by nationalistic claims (only Filipinos can do retail trade), which are not even practiced. In actuality, non-ethnic Filipinos control the retail trade. At any rate, before liberalization, the mark-up price of manufactured consumer goods, at the point of retail, was 36 percent, while the global benchmark was 12 percent. This basically penalizes the poor consumer. The only solution is to allow more capitalization into the retail trade system to spur competition.

In sum, what I am trying to say is, there is danger in ascribing categories that might have no operational or methodological meaning. It begins with a straw man and end in an ideological debate. I think the problem with my discipline—social sciences in general and political science in particular—in this university is that it has not been sensitive to solving practical problems as they arise and to providing a means to make things work better in this country. Having said that let me conclude by saying that this neoliberal gimmick is a form of obscurantism. I do not think that it is even productive to use this term. Maybe we can dissect the specific policies—see if and where they work and analyze why do they not. I think this practical-solving approach will do the country much better than throwing labels at each other.

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Let me first address the question whether neoliberalism is indeed a straw man or a boogey man. The truth of the matter is, the term can be found in the literature. It is used by different distinguished economists, including Joseph Stiglitz and John Williamson, who coined the term "Washington Consensus," recognizing that it is synonymous with neoliberalism. But again, that should not be the main point of our discussion. My colleague at Ateneo de Manila University, Joseph Lim, observed that the intellectual debate on neoliberalism, even in the United States, has already been resolved. This has actually been settled as far back as the late 1990s and early 2000. The Philippines has lagged behind in this discourse, so to speak.

In a conference in 2002, where Williamson was also present, Dani Rodrik, a young rising star in economics, proclaimed that neoliberalism is dead. Rodrik cites the unsustainability of economic growth in the 1990s. He points to this decade as the most standing failure of neoliberalism. It was the Latin American experience that led to the distillation of the Washington Consensus. During that period, only three countries in Latin America grew faster than the historical average growth rates in the 1950-1980 periods. These were Argentina, Chile, and Uruguay. However, Chile—one of the countries with high degrees of economic freedom—adopted some unorthodox antiliberal economic policies (e.g., capital controls and nationalization of the mining sector).

It is not just the lack of growth that has undermined neoliberalism's sway. Sustained growth did not materialize in many different countries, especially in emerging market economies and transition economies, because of the frequency of the devastating financial crises. Worse, whatever growth that took place came with widening income gaps. At present, the countries that have performed well all-around—characterized by growth entity and insulation from painful financial crises—are those whom the World Bank claims as globalizers. On the contrary, these were actually the countries that deviated from the neoliberal path and adopted a combination of conventional and progressive policies. Quoting Rodrik, the solid economic performance of China, India, and Vietnam "march to the beat of their own drums." The East Asian miracle—the rise of the Newly Industrialized Countries—was a product of heterodox strategy that deviated from the conventional wisdom of neoliberalism. The crisis that hit some of these countries in 1997 resulted partly but significantly from following the prescriptions of capital account liberalization.

However, when Rodrik said that neoliberalism is dead, it should be understood metaphorically. Neoliberalism is still very much alive in multilateral organizations and other institutions. Nevertheless, neoliberalism's intellectual scaffolding has collapsed and its ideological hegemony has vanished. Surely, Rodrik is not the first to proclaim the death of neoliberalism. Other eminent economists like Stiglitz, Amartya Sen, Krugman and Wolfgang Sachs have made such pronouncements as well. Having said that, the core of the debate is actually the question: what really is neoliberalism?

Economists who are critical of neoliberalism have different interpretations. In the Philippines, quite a number of economists are in fact not familiar with the term "neoliberal." One definition of neoliberalism is provided by Arthur McEwan: "neo-liberalism is a reincarnation of nineteenth-century classical economic liberalism, and Tatcherite and Reaganomics are the extreme forms of neoliberalism." Jomo K.S. of the University of Malaya—now with the United Nations—states that "neo-liberalism encompasses both the neo-classical model and the Austrian school of thought. The neoclassical model formally articulates Adam Smith's invisible hand and contends that markets ensure economic efficiency while the Austrian school of thought champions laissez faire and its distinction lies on its abhorrence of government intervention in the market, which he regards as destructive." At least in neoclassical economics, market failure justifies government intervention.

For Rodrik and Stiglitz, the definition of neoliberalism has a narrower scope. It is synonymous with the Washington Consensus. Neoliberalism then is not conflated with neoclassical economics. That, I think, is a very important distinction. There is a tendency to equate neoliberalism with neoclassical economics. Neoliberalism draws heavily from neoclassical economics but it does not and cannot represent the different streams of thinking that fall under the neoclassical rubric. Being aware of that overlap, Lim coins the term, "neoclassical neoliberals." Rodrik further says, "neo-classical economics is not the enemy and in fact, it should be marshaled in fighting neo-liberalism that is embodied in the Washington Consensus." For him, neoliberalism is dead. Yet, different economists have varying interpretations of what neoliberalism is.

A good definition of the so-called "Washington Consensus" has already been given a while ago, which includes a long list of policy prescriptions. This makes one reform too many. They are difficult to implement in one single blow or in a short period of adjustment. Rodrik has argued that such blueprint is useless, for what really sparks growth and development is a narrower group of policy reforms that are country-specific and encourage domestic institutional innovations. The problem with the Washington Consensus is that it has become a one-size-fits-all approach. As originally formulated by Williamson, the Washington Consensus specifically pertains to the lowest common denominator of policy advices applied by the International Monetary Fund and World Bank to Latin American countries. But over time, the Washington Consensus has become a mantra of South economics—what is good for Latin America is good for Asia, Eastern Europe, and all other places. This is what George Soros calls "market fundamentalism," which Williamson recognizes as neoliberalism. Of recent vintage is the so-called "augmented Washington Consensus," which is a recognition that the original Washington Consensus is deficient or failure. This augmented consensus includes the sequencing of reforms, promotion of transparency and accountability, strengthening of regulatory institutions, and fight against corruption. It is a delayed reaction to the criticisms, as well as an acknowledgement of the weaknesses and shortcomings of the original consensus. Nevertheless, the augmented agenda can only complicate matters.

To return to Rodrik's criticism, a blueprint with too many prescriptions is impractical for a developing country. Obvious policy prescriptions are common features in the mature economies. If we stretch the logic, we can surmise that if such reforms are put in place in a developing country, it would instantly qualify as a highly-developed country in the Organization for Economic Cooperation Development. Arguably, some of the powerful weapons against the Washington Consensus are found in the neoclassical economic armory. That is why Rodrik has reminded the progressive scholars and activists to treat parts of neoclassical economics as allies in exposing and isolating the Washington Consensus. To illustrate this point, he provided several examples, one of which is capital account liberalization. One can invoke the market failure argument, specifically the imperfect information in the financial sector as well as the problem of coordination to slow down or control capital flows. He also recalls the Mundel-Fleming model, which postulates that simultaneously having monitoring policy independence, fixed exchange rate and full capital mobility are impossible. A regime of fixed exchange rate and monitoring policy independence will eschew full capital mobility. Another example deals with commercial policy in the context of trade liberalization. It makes economic sense for a firm to receive assistance from the government in the form of loans or export subsidies when capital markets are immature. A firm entering an industry has to borrow funds for it may initially have to operate at a loss to gain experience before earnings materialize in the long run. The case of achieving economies of scale is also a standard and valid argument for transparent government assistance.

Raul Fabella, Dean of the University of the Philippines School of Economics—which incidentally is labeled as the bastion of neoliberalism in the country—says, "a limited state agenda in the Smithian tradition can be flexibly stretched by invoking positive externalities to accommodate government intervention directed at achieving egalitarian outcomes." Rodrik emphasizes the universal principles embedded in neoclassical theory, which include property rights, rule of law, private incentives aligned with social costs and benefits, and sound financial and macroeconomic management. However, the real challenge lies in how to flesh out these core principles in specific country settings. China, for example, has a weak legal regime of property rights; yet, its informal governance institutions and arrangements are sufficient to sustain high levels of investment.

To conclude, heterodox policies and approaches are most welcome and they can be harmonized with conventional wisdom. To borrow one of Mao's quotations, instead of saying "let a hundred flowers bloom," let a thousand root models bloom. At the same time, old-fashioned neoclassical thinking should not be totally rejected. Some aspects of it can be used to defeat the most pernicious pictures of neoliberalism. It is precisely this excellent grasp of neoclassical economics that enables the likes of Rodrik, Stiglitz et al. to credibly and convincingly demolish neoliberalism.

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I would also like to make the same distinction between neoclassical economics and neoliberalism. However, I would hesitate to argue that neoliberalism is dead. I think that the power of neoliberalism is not just in its economic character but also in its political and ideological features. I heard of quips about the difference between neoclassical economics and neoliberalism. One is that no one dies for the general equilibrium model but people would certainly die for freedom. Neoliberalism has been able to appropriate the powerful notion of freedom and associate it with the freedom project of liberalism that has made it very influential. Although liberalism has been exposed, in many ways, as being narrow-minded, it continues because it has taken on that project of freedom and at the same time denied the other perspectives' notion of both political and economic freedom.

I would like to zero in on an area that has become part of the discussion in recent years—good governance. While it provides both the contradictions of neoliberalism, it should also allow us to look at the possible pitfalls when people adopt a term like “good governance” due to its complex character. It is not a monolithic perspective and approach. However, it provides the space for exposing the limitations of neoliberalism, and perhaps, even extends the neoliberal project from the standpoint of liberalism.

Why do I say, for example, that neoliberalism has become a powerful political or ideological perspective? Some people have said that in some ways, neoliberalism is a revolution of sorts because it is a reaction to a prior revolution in liberalism. This comes out of the recognition within the liberal tradition that the state, in many ways, is a very important actor. Therefore, in cases where there are externalities and instances of market failure, the state has a very important role to play. In fact, throughout much of the postwar period, beginning in the late 1940s until the mid-1970s, it was also recognized that even as classical liberalism promoted the market as a norm. Part of the agenda in promoting not only economic but also political freedom was to get the state to intervene, especially in cases where there is a lack of aggregate demand or a presence of market failures. In that sense, therefore, it was a remaking of liberalism to include various aspects of what you might call “social liberalism.” That was the reason it was termed “neoliberalism” because it was also a response to a particular social form of liberalism, which during a certain point in time has accepted that, perhaps, even welfare forms of capitalism were part of the liberal agenda. That also explains the merging of more social democratic aspects of socialism with a more social, liberal character of liberalism. At some point, there was what some people called the “social democratic” or “social liberal” compromise within Western countries. The emergence of neoliberalism is precisely the reaction to that. Thus, problems such as stagflation and inefficiencies, which came out of these policies, were pointed out as part of the limitations of this version of economics.

At the same time, however, there is a populist dimension to this. Welfare governments actually hinder the rights of individuals and families. In that sense, it becomes antifreedom or antidemocratic. Part of the thrust of the neoliberal perspective is the contention that this brand of liberalism associated with Keynesianism and welfare state forms of capitalism were, in fact, infringing on the argument or the very project of liberalism itself, which therefore makes it a powerful perspective.

Similarly, in the development economics tradition, you have development economists who are pragmatic and policy-oriented from the start that in many ways, they accept market failures and the need for governments to intervene. In the 1980s, one of the best representatives of neoliberal thinking was Deepak Lal who precisely painted this form of development economics as the *dirigiste* (centrally planned) dogma. What can be more ideological than painting development economics itself as a tenet? Therefore, in that sense, what you have is an infringement on not just economic but also political freedom. In some ways, this trend was associated with the reaction to authoritarianism both on the right and left. At some point, the struggle for political democracy or political liberalism in the 1980s became a struggle against what was felt as the highly-interventionist authoritarian states. This was true, for example, in Philippine context. The timing of the struggle against Marcos was also, in a sense, a struggle against the particular forms of interventionism associated with Marcos. Hence, there was a coming together of economic and political liberalism.

Now, let me go to the good governance agenda. One reason it is complex and in many ways a project that needs to be much more fully understood is that at one level, this comes out of what might be the struggle for neoliberal democracy. Part of the history of the good governance perspective comes out of the struggle against communist and authoritarian regimes and the rise of civil society reacting to authoritarian governments, whether of the left or of the right. Therefore, the call by social groups for good governance is a call for making the state much more transparent and accountable. This is one level of the good governance agenda—what you might call the liberal democratic agenda.

The good governance agenda has another element. When neoliberal policies or the Washington Consensus was implemented in Africa and Latin America, there was a recognition that even this minimal government agenda required an effective and capable state in order for it to be implemented. Privatization would still require an effective and capable state, even if it is minimalist.

In the 1990s, the World Bank itself changed its thinking and adopted a good governance agenda because it recognized that even the structural adjustment policies required an effective state. You now have an emergence of perspectives on transparency, accountability, and anticorruption. Again, there was an appreciation of the need to take the state seriously, which includes getting prices and institutions right.

Hence, there was a kind of shift in thinking even within the neoliberal perspective.

I think that it is part of what we need to understand about neoliberalism. There is a curious or orthodox paradox of the minimal government agenda itself requiring an effective state. I think what we need to do is look at which groups or sectors are being made accountable and which are not. For example, when you look at anticorruption measures, you must address which groups are being made accountable or not. One interesting development is that people have recognized the need for accountability even within the private sector, because of the Asian financial crisis and the Wall Street disaster. It likewise provides the space for advancing much broader notions of accountability.

What about the civil society perspective? In a sense, you might say that this is distinct. At the same time, there is an impression of a reaction to authoritarianism and statism. To a certain extent, part of what has emerged as civil society comes out of a reaction to overly statist forms, such that it is not just in terms of democracy but also of services delivery. At some point, even the World Bank recognized that when it provides funds, it will directly provide it to civil society groups and not through state agencies and institutions. At one level, people in civil society recognize this as a positive thing. At the same time, what forms of transparency and accountability are needed and to what extent these create new forms of dilemmas should also be asked.

Finally, part of the challenge in looking at liberalism and neoliberalism is to present a real dilemma at the heart of liberalism itself. At one level, it is presented as technical, neutral, and pragmatic. Simultaneously, people begin to recognize that even the neutral discourse of equality implicit in liberalism (this being done in the context of an equal access to liberal institutions) actually opens the space for questioning liberal forms. In other words, as one political scientist has pointed out, liberalism carries with it not only the seeds of its own destruction but also, perhaps, the seeds of its own expansion. Liberalism, for all its historical shortcomings, contains its subversive elements that can play into the hands of activists.

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