

Vivien A. Schmidt and [Mark Thatcher](#)
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Why are Neo-liberal Ideas so Resilient in Europe's Political Economy

Vivien A. Schmidt and Mark Thatcher

Despite the economic crisis that hit full force in 2008 in the US and Europe, political leaders have made little attempt to rethink the neo-liberal ideas that are in large part responsible for the boom and bust, let alone to come to terms with how immoderate the 'Great Moderation' really was. Much the contrary, neo-liberal ideas seem to continue to constitute the ruling ideas. In the financial markets, where the crisis began, reregulation remains woefully inadequate, while the only ideas in play are neo-liberal, either for more 'market-enhancing' regulation or in favor of greater *laissez-faire*. The biggest puzzle, however, is the response to the crisis by Eurozone countries that have embraced 'market discipline' through austerity and, in so doing, have condemned themselves to slow or no growth. This is in contrast to the US, which has posted better economic results, despite being torn between Republican fundamentalists advocating austerity and a more pragmatic leadership focused on growth.

Our question, then, is: How do we explain the resilience of neo-liberal economic ideas? Since the 1980s, why have such ideas not just survived but continued to be dominant? Neo-liberalism entails belief in competitive markets enhanced by global free trade and capital mobility, backed up by a pro-market, limited state that promotes labor market flexibility and seeks to reduce welfare dependence while marketizing the provision of public goods. The watchwords for such neo-liberalism are liberalization, privatization, deregulation, and delegation to non-majoritarian institutions such as 'independent' regulatory agencies and central banks. The touchstones highlight the importance of individual responsibility, the value of competition, and the centrality of market allocation. The neo-liberal mantra presents the state as the perennial problem, the market as the solution—even today, despite the fact that the crisis was caused by the markets, not the state.

Resilience itself should be seen as a process, not a fixed state. It can be highly political, marked by struggles to determine agendas, set goals and select policies. And it may vary both across domains and countries. In a few areas—notably welfare—after extending their reach, neo-liberal ideas have faced social-democratic counter-attacks and then evolved into a new synthesis in which social-democratic values continue to underpin the welfare state despite the use of neo-liberal policy tools. In other domains, neo-liberal ideas may have produced the opposite of what they initially intended, such as how the roll back of the state to free up the markets metamorphosed into state roll-out and a new synthesis with not less but more state, albeit a much more liberal one. Moreover, in some Eastern European countries, policies justified by neo-liberal ideas have come to face strong opposition after years of unquestioning acceptance while neo-liberal rhetoric has long faced rejection in France, despite implementation of neo-liberal policy.

But be this as it may, the core principles of neo-liberalism have continued to predominate. Competition has been the central concept for debates about the organisation of markets both at the EU level and at the national level, not just in Anglo-Saxon polities

such as the UK and Ireland, but even in more corporatist and social democratic countries such as Germany, Sweden and Denmark. ‘Competitiveness’ has been the goal for national economies and firms across Europe, including in statist countries such as Italy and France. Austerity and ‘structural reform’ continue to dominate Eurozone crisis debates, with active labour market policy focused largely on increasing labour market ‘flexibility’. Overall, what is striking is how often neo-liberal ideas have been resilient in the past thirty or so years in political discourse and policy debates in Europe.

So how can we explain such resilience? Why, especially in light of the crisis, has there been no major shift in ideas, either back to the neo-Keynesianism that brought the postwar ‘Golden Years,’ beyond a fleeting moment in 2008-2009, or forward to something new? How do we explain the fact that neo-liberalism continues to permeate how people think and talk about state and market? We propose five lines of analysis to explain such resilience: the flexibility of neo-liberalism’s core principles; the gaps between neo-liberal rhetoric and reality; the strength of neo-liberal discourse in debates; the power of interests in the strategic use of ideas; and the force of institutions in the embedding of neo-liberal ideas.

Neo-Liberalism’s Ideational Generality, Diversity, and Mutability

The first line of analysis of the resilience of neo-liberalism focuses on the generality of its core principles, such as the centrality of market allocation, the value of competition, or the importance individual responsibility make it highly adaptable to changing circumstances and needs. While the generality of neo-liberalism makes it hard to pin down, its diversity enables it to absorb many different and even contradictory ideas at the same time that its mutability enhances its adaptability to changing and even hostile terrains, allowing also for metamorphosis and hybridization.

Neo-liberalism’s mutability is apparent in its ability to change its views of the state, as noted above, by moving from ideas focused on the ‘rollback’ of the state to free up the markets in the 1980s under conservative leaders to the ‘rollout’ of the state to make markets work more freely under progressives in the 1990s and even to the ‘ramp up’ of the (supranational EU) state during the crisis of the Euro area. Neo-liberalism has also been able to absorb seemingly contradictory ideas, as in the case of the welfare state, where after an initial clash with social democratic ideas, through attempts at passive reduction of social spending and job protections, it incorporated such ideas in programs that sought to make active use of the welfare state to promote market efficiency via ‘active labor market policies.’ It has equally been able to undergo metamorphoses such that ideas discredited in previous periods recur, returning in new guises, such as the 1920s discourse of ‘sound money’ reappearing in the 1970s as monetarism and in the late 2000s as ‘sustainable debt.’

Finally, neo-liberalism has also experienced hybridization, with its capacity for diffusion and translation into diverse national contexts enabling it to gain ground even in countries with deeply entrenched social-democratic ideals such as Germany and Sweden. These countries integrated key principles of neo-liberalism in different ways to produce hybrids of what Gerhard Schnyder and Gregory Jackson call ‘corporatist-managed liberalization,’

in which the social partners are important participants in ensuring internationally competitive firms.

Thus, a key part of an analysis of the resilience of neo-liberalism is seeing it as an overall orientation, characterized by a core set of first principles rather than a specific and falsifiable set of theories or doctrines or proposals. But focusing on neo-liberalism in terms of ideas alone is insufficient. Explanation also requires identification of political processes and actors, as well as the context within which they operate.

Neo-Liberal Rhetoric versus Reality, or the Benefits of Non-Implementation

The second line of analysis of neo-liberal resilience suggests that it often works only in the rhetoric, not in the reality of implementation. But rather than discrediting neo-liberalism, non-implementation may actually benefit it, since it can thereby remain an ideal yet to be accomplished, and as such can repeatedly return in debates and political programs.

Notably, many neo-liberal policies – such as cutting public spending, reforming welfare, and reducing regulatory protection – are difficult to implement and extremely unpopular politically. This helps explain why promises to cut back the state for the most part turned out to be hollow, in particular as state restructuring did not lead to a decrease in its size, nor did it necessarily reduce public spending. Deregulation, rather than getting rid of the state, simply led to reregulation of a different kind. But rather than a weakness, this can be seen as a strength. Past non-implementation allows neo-liberal politicians to distance themselves from the policies of their predecessors, whether from their own party or those of their opponents. It may also serve as a rallying cry, to call for more neo-liberalism, with appeals to an ideal future thereby distracting attention from the past's real failures or the grim realities of the present. Finally, neo-liberalism can also help alter the terms of the debate, say, from 'whether to cut' to 'how fast to cut,' as with deficit reduction in the Euro area, or by recasting pensions or welfare payments as 'wasteful burdens' rather than the earned rights of citizens.

This second line of analysis offers a powerful response to arguments that neo-liberalism does not exist because many of its specific policies have not been implemented. Indeed, its ideational breadth and inclusion of contradictory elements make it particularly likely to benefit from the gap between rhetoric and policy reality. However this explanation also raises a number of questions, most importantly, why have policy makers not taken up alternative ideas that are more practicable? This draws attention to the political value of neo-liberal ideas in political debate, the way it may serve the purposes of certain interests, or how the political system itself permits impossible ideas that resemble fairy tales to be told and re-told, despite contrary experiences.

The Strength of Neo-Liberal Ideas in Policy Debates and Political Discourse

The third line of analysis points to the fact that neo-liberal ideas have generally been more successful in policy debates and political discourse, winning in the 'battle of ideas' against weaker alternatives. This may arise from the content of the ideas themselves, how political entrepreneurs use these ideas to frame the problems of the day, and how

they communicate those ideas. Alternatively, it may be due to the weakness of alternative ideas than with the strength of neo-liberal ideas *per se*.

In some cases, the strength of neo-liberalism may come from the seemingly common sense nature of neo-liberal arguments. For example, appeals to the ‘virtue’ of sound finances using the metaphor of the household economy—extrapolating from the need to balance one’s household budget to the need to do the same for the state budget—may resonate better with ordinary citizens than the Keynesian counterintuitive proposition to spend more at a time of high deficits and debts. In other cases, neo-liberal success can be attributed to the reframing of current problems of the Eurozone—say, as a crisis of public debt rather than of the banks; to the narratives—about public profligacy being the problem, belt-tightening the solution; and to the myths—for the Germans, that belt-tightening is the only way to avoid the risks of hyperinflation of the early 1920s, thereby ignoring the risks of deflation and unemployment of the early 1930s that led to the rise of Hitler.

At the national level too, neo-liberalism has seemed better placed in policy debates than its competitors. In Eastern Europe, it appeared to promise eventual economic growth, whereas the alternatives were dependence on a state that has suffered from links with past communism or present right-wing nationalism in countries such as Hungary and Poland. In France and Italy, statist paradigms have been condemned as poorly adapted to a global economy and/or as leading to excessive state spending, corruption, and inadequate or unresponsive public administration. Even the disasters of private sector financialisation in Britain and Ireland have been followed by debates about how much state austerity to pursue, rather than structural reforms of the housing and financial markets or Keynesian policies to offset falls in private sector demands.

Yet another factor responsible for the ability of neo-liberal ideas to ‘beat’ ideational competitors has been the effectiveness of neo-liberal ideational entrepreneurs’ communication in policy debates and political discourse. These include political elites and entrepreneurs such as Reagan in the US, Thatcher in the UK, Balcerowicz in Poland, and Klaus in the Czech Republic. However, it extends to technocratic elites such as members of the European Commission whose authority results from their expertise, and also to academic elites, mainly economists like Friedman in Chicago, Hayek in London, and contemporary economists whose simple models embed neo-liberal assumptions about rational actors in free markets and provide ‘authoritative’ references for technocratic and political elites alike.

Equally importantly, it may be that neo-liberals are not so strong but their opponents are weak. Where, after all, have the center-left parties been in all of this, in particular in Europe throughout the Eurozone crisis? Notably, only very recently have European social democratic leaders called for growth, even as they continue to dole out austerity. But they have not offered any fully developed alternative policy program, let alone one that can rival the neo-liberal in its simplicity and apparent common sense, as noted above.

This third line of explanation has many virtues, notably in highlighting the central place of neo-liberal values, theories and paradigms in public policy debates. However, it cannot explain why in some domains, such as welfare, clear alternative values and paradigms exist, such that neo-liberalism became part of a new synthesis, by contrast with an area like finance, where it predominates. It also cannot account for why, given the Eurozone crisis and neo-liberalism's own weaknesses, alternatives have not been seriously attempted. These problems suggest that other explanatory factors also matter, notably key actors' use of neo-liberal ideas to further their interests and the institutional framework within which neo-liberal ideas are formed, developed, disseminated, debated, and adopted by policy makers.

The power of interests as the winners from neo-liberalism

The fourth line of analysis explains neo-liberal resilience in terms of the powerful coalitions of interests that often take up neo-liberal ideas for their own strategic purposes, whether they believe in them or not. Economic actors may benefit materially, notably through lower taxes or the new opportunities opened up by 'deregulation' and privatization. Bankers have been laughing all the way to the bank. Politicians also can benefit by using neo-liberal ideas to gain or retain political power while institutional actors—regulators, central bankers, and the like—gain autonomy and increasing power.

These self-interested actors may contribute to the production and propagation of neo-liberal ideas in a variety of ways in efforts to further their own interests, whether in policy venues or in more general public settings. Some economic interests may act directly in popularizing neo-liberal ideas, such as the mass media companies, in particular those controlled by politically active media 'moguls' such as Rupert Murdoch in the UK, Silvio Berlusconi in Italy, or Martin Bouygues in France. Others contribute more indirectly to the production or popularization of neo-liberal ideas by establishing, supporting, and financing neo-liberal societies, think-tanks and research institutes such as the Mont Pèlerin Society or the Institute of Economic Affairs, or by participating in the shaping of policy agendas or the creation of specific policy ideas. Most also participate in broad coalitions to promote their interests, with elected politicians and political parties but also unelected officials serving as vital 'accomplices.' Such coalitional influence is visible in areas such as in the regulation of financial markets, mergers, and corporate governance, where advocacy coalitions of large firms and their managers have coalesced with EU and/or national government officials, behind neo-liberal ideas of expanding and protecting competition.

All of this, moreover, tends to be self-reinforcing, since the more neo-liberalism takes hold, the more it is likely to consolidate such actors' commitment to neo-liberal ideas, as well as to create an attitude of 'if you can't beat them, join them.' This helps explain the center-left's adoption of neo-liberal ideas, beginning in the mid 1990s with Clinton in the US and Blair in the UK, followed by Schröder in Germany and Jospin in France, not to mention other smaller European member-states such as the Netherlands or Sweden.

This kind of interest-based explanation is valuable as it brings to the fore who gains and loses from neo-liberal ideas. However, actor interests do not always simply map onto

ideational preferences, since economic actors need not only support neo-liberal ideas but may instead back hybrids, such as corporatism or social democracy. Moreover, an explanation focused on interests cannot account for how and why labour and the beneficiaries of a wide range of social policies have lost in the policy debates or switched their views, in particular given their larger numbers. While part of the answer may rest in the difficulties of collective action or theories about ‘capture’ by interest groups, another part relates to the (re)construction of actors’ ideas, which refers to the earlier three lines of analysis about neo-liberal ideas. Attributes such as flexibility, high levels of generality or appeals to ‘common sense’ and personal experience also help explain why neo-liberal ideas may be particularly suitable for rewarding powerful supporters, creating coalitions and selling them to the public.

The strongest objection to interest-based explanations is internal, however. Frequently neo-liberal policies damage their supporters. Political parties and politicians espousing radically neo-liberal ideas have rarely weathered the transition into political office successfully. Ideas of reducing collective benefits such as healthcare, pensions and education are vote losers—even in Britain, the most favourable ‘micro-climate’ for neo-liberalism in Western Europe, while in Central and Eastern Europe, the initial popularity of neo-liberalism has given way to disillusion. Hence the most penetrating questions may concern how and why those interests are constructed and especially why actors find neo-liberal ideas as the best way to serve those interests. This leads us back to the other explanatory factors but also forward to the role of institutions in shaping incentives or in constraining action.

The force of institutions as supports and constraints

The fifth line of analysis points to the ways in which neo-liberal ideas gain force from their institutionalization in the rules and regulations, as well as from the institutions that have affected the uptake of neo-liberal ideas in a variety of ways. Their influence can be analysed in terms of different ‘neo-institutionalisms’, including the rationalist shaping of actors’ institutional incentives to favour neo-liberal ideas; the historical institutionalization of neo-liberal ideas, such that these become ‘path-dependent’ constraints or set the limits to opportunities for incremental change; the sociological framing of agents’ institutional engagement, whether through mimesis, norm-following, or coercion; and the discursive interactions that in turn structure the (re)construction and spread of ideas.

In terms of organizations, the EU’s new non-majoritarian institutions from the 1980s onwards have actively promoted neo-liberal ideas. These include the independent regulatory bodies such as the independent central banks, the international credit-rating agencies, and the standard-setting bodies that are out of the reach of national state control. For the EU, we need mention only the ECB and the European Commission, including the Directorate General in charge of Competition or of Economic and Monetary affairs. Moreover, in the EU, the institutionalization of neo-liberal ideas in successive pacts for stability in the Eurozone – beginning with the Stability and Growth Pact that consecrated the 1990s Maastricht criteria for monetary union and culminating with

various pacts during the Eurozone crisis – ensure that neo-liberal ideas about fiscal consolidation will be difficult to reverse, regardless of their failure to solve the crisis.

Often the rules prove coercive, in particular where authoritative institutions use their powers of imposition rather than of persuasion. The most visible examples are the cases of EU Commission and IMF conditionality in Eastern Europe; the ‘Troika’ of the IMF, ECB, and EU Commission in recent ‘Eurozone’ bailouts of Greece, Ireland and Portugal. But even without a direct *quid pro quo*, coercion is significant, be this through the succession of pacts and compacts requiring member-states to adhere to more and more stringent rules regarding EMU, or through less formally institutionalized means, such as when member-states face pressures to adopt neo-liberal prescriptions in order to maintain ‘credibility’ with the markets. Finally, instead of being imposed via coercion, followed because of path-dependence, or adopted in response to incentives, neo-liberal ideas can inspire mimesis, because they have become ‘fashionable’, or norm-following, because they are seen as the only legitimate course of action.

Institutionalist analyses of neo-liberal ideational resilience have many virtues. One is that they underline the importance of institutionally derived resources and positions while bringing out the restrictions and constraints within which policy makers think about policies. Thus, in contrast to the first three explanations, an institutionalist analysis sees ideational debates as embedded in organizations and structures. It also differs from an interest-based one in underlining that actors and their interests are created by and operate within wider structures and broader institutional contexts. This helps explain the variation in the embedding of neo-liberal ideas in the member-states, such as in the differential success of active labour market policies in Britain versus Denmark or the different paths taken with regard to labor market policy even between countries within one variety of capitalism, whether Britain versus Ireland or Poland versus Hungary.

Institutionalist analyses, however, also have their limits, in particular because they leave considerable room for interpretation within a given set of rules. Thus for instance, there is considerable space within EU rules on competition for pursuit of objectives other than competition. These include different forms of public service and industrial policy. Moreover, even within the rules on monetary union, there has been space for the ECB to take ‘unorthodox measures’ to save the euro. Notably, changes in rules have sometimes countered neo-liberal movements. In welfare policy, for example, neo-liberalism has faced alternative ideas about rights based on gender, sexuality or handicap that drew strength from EU law and ECJ decisions. Third, some of the organisations seen as carriers of neo-liberal ideas have sometimes acted to promote alternative ideas, as when the European Commission has initiated discussions about the stake-holder model of corporate governance and alternative modes of regulation of network industries. Even the IMF, a core carrier of neo-liberalism, called for Keynesian measures and slower moves towards austerity after 2008, and criticized EU Commission policy. Finally, referring back to the previous lines of analysis, the political process can constitute a source of friction, generating new ideas and coalitions against neo-liberalism, in particular when events—or interpretations thereof—seem to give the lie to neo-liberal policy and programmatic ideas.

Conclusion

These five lines of analysis leave us with one final question: given all this resilience, is there any way out of neo-liberalism? One pathway could be collapse from within, as the contradictions inherent in neo-liberalism become increasingly clear—such as between the ideal of a limited state and the practice of the state playing a strong role to enhance markets. Another could be rejection from without, as the broken promises, indeed the failures, of neo-liberalism become ever more apparent to citizens. Yet another is that strong ideational alternatives to neo-liberalism gain strength, say, with new approaches to economic governance that put the polity before, rather than after, the economy. It is also possible that neo-liberalism loses the support of powerful interests, or that new coalitions emerge. Perhaps the social democrats will begin to coalesce behind a new set of ideas. Finally, it may very well be that the institutions of neo-liberalism break down, are replaced, or evolve as a result of new coalitions of interests with new ideas about how to solve the problems. But for any of these eventualities, things are likely to become much worse, before we see any new light at the end of the tunnel.

Vivien A. Schmidt is Professor of International Relations and Political Science at Boston University; Mark Thatcher is Professor of Comparative Politics and International Studies at the London School of Economics. This piece builds on their argument in their co-edited book, [Resilient Liberalism in Europe's Political Economy](#) (Cambridge University Press, 2013). A much shorter version of this essay first appeared online in *Policy Network* http://www.policy-network.net/pno_detail.aspx?ID=4500&title=Why-are-Neo-liberal-ideas-so-resilient