

PO133: Foundations of Political Economy

Week Three – How do states and markets interact?

Last week's seminar looked at markets and problematized the view that they are somehow natural or inevitable. We talked about different meanings of the claim that markets are 'made' and the political issues they bring up. This week we will be looking at states and how they interact with markets. Again, we will see that the role of states in the economy—like the role of markets—is ambiguous, contested, and subject to political debate.

Task 1: Let's talk about the reading. This week's reading by Will Davies is quite dense. There are a lot of ideas in there and many of them are touched upon, rather than fully developed. In order not to get lost, it is helpful to think about the structure of the article, to work out its overarching line of argument. How does one part of the article work in relation to the others? Here is my way of structuring the text:

0. Introduction

1. The idea of the neoliberal state

Davies asks: What are neoliberal ideas about the state?

- Ordo-liberalism: State creates markets as a 'separate sphere'.
- Neo-liberalism: State creates markets as a 'separate sphere' **and** turns states into markets themselves.
 - a) **Competitiveness:** Prevent cartels & monopolies; Create competition in non-competitive environments (universities, state bureaucracy, between states)
 - b) **Explicitness:** Quantify and measure activities in terms of performance and outcome, cost and benefit.

2. The neoliberal state in practice

Davies asks: How are these ideas put into practice?

- 'Politics' is turned into a pejorative category
 - a) **Popular sentiment:** Anti-elite attitude, Bureaucracy bashing, Media campaigns
 - b) **Technocracy:** Independent committees, Independent Central Banks, Consultancies
 - c) **Executive decision:** Charismatic entrepreneurs, Use of police and military force, Exceptionalism

3. Contradictions of the neoliberal state

Davies asks: What are current political implications of the neo-liberal state?

- Duplicity of neoliberal politics: laissez-faire vs. surveillance & control; Entrepreneurialism vs. monopolies.
- Limits to de-politicisation: Democratic deficit, private interests in public policy, systemic crises.
- Demand for more radical version of the same, or change of direction?

4. Conclusion

Davies draws attention to the paradox role of the state in neoliberalism: While needed and used for neoliberal reform (or market expansion), it is constantly being attacked as if it was an obstacle to them. To overcome this dilemma, so Davies, the state itself is being reorganised and infused with 'market logics'. Neoliberal reform is then presented as the result of *less* state when it is really just creating a *different* state, with a different internal organisation and a different economic role. Thus, while state intervention limits 'market expansion' in certain ways, it also accommodates market expansion in others and the task is to analyse how they are mutually intertwined.

Task 2: The neoliberal state in practice; or, what does ‘neoliberalism’ even mean?

In the years immediately after the Second World War there was a widely shared consensus in the capitalist West that in order to be compatible with democratic values market mechanisms would have to be tamed by an interventionist welfare state. The state was expected to guarantee social security, labour rights, and re-distributive measures, but also to control key sectors of the economy (energy, water, transport). However, in response to economic stagnation in the 1970s, the consensus disintegrated and a ‘neoliberal’ view started to gain purchase proposing that state intervention should not tame market forces but unleash their potential.

Discuss one of the following three typical ‘neoliberal’ policies:

2.1. Flexible Labour: Perhaps the most emblematic neoliberal labour policy in the UK has been Margaret Thatcher’s defeat of the miner’s strike of 1984-1985, which sounded the death knell for organised labour. A more contemporary example is the rise of the so-called “gig-economy”: People working for businesses such as Uber or Deliveroo are exclusively on short-term contracts; instead of a regular salary they get paid per job – or gig; they are not entitled to the national minimum wage, or to sickness, holiday or redundancy



pay; and they don’t have guaranteed working hours. Supporters hold that the gig-economy is an example for the ‘market doing its magic’ creating a flexible job market. Critics in turn claim that it has undone over a century of progress and reintroduced sweatshop conditions to the UK. **Have you worked in the gig-economy? Do you think that the gig-economy is exploitative? What should be the role of the state in enabling/curbing the gig-economy?**

2.2. Privatisation of public goods and services: If you switch on the light, take a shower, drink a glass of water, catch a bus, use a train, post a letter, or walk on a square in London, then you are making use of goods and services which are today provided by private companies, but 30 years back would have been provided by the state. A core policy of neoliberal government has been to privatise/outsourc



public goods and services in the belief that market pressures would lead to better quality at higher efficiency. But there have been repeated scandals of private contractors reaping large profits while running down public infrastructures. While last year was all about the crisis of railway and prison operators in the UK, this year has seen the collapse of Carillion a private company with contracts in construction, hospitals, and schools. **Can private companies be trusted with delivering public goods? Is profit-maximising an obstacle or an advantage for that purpose? Are there certain sectors that should not be governed by the need to be profitable? Think of transport, water, education, or prisons, for example.**

2.3. From welfare to workfare: Arguably one of the most heated debates is over the provision of benefits to the unemployed. In the 1960 and 70s, in times of near full-employment (of men) the hardship of unemployment was considered a collective risk that society should insure against unconditionally. The neoliberal view, in turn, framed benefits as a market distortion that created unemployment because it took pressure of receivers to search new work and allowed them to turn down unattractive jobs. This has led to major cut-backs in support allowances and a redefinition of the aims and purposes of the state. Fletcher and Wright (2017) argue that the state has taken “*an authoritarian approach to unemployment, involving dramatic use of strategies of surveillance, sanction and deterrence*”. **Do you think the state can help people finding work without being authoritarian? Is unemployment also an individual problem of character or personality? In what sense is Jeremy Kyle a ‘political’ TV show?**



Task 3: Are states in conflict with processes of economic globalisation?

3.1. The ‘globalisation thesis’ suggests that global markets have given international business actors unduly powers over states. For example, the possibility for a country to have a minimum wage might be compromised by calls for the cost of labour to be competitive so as to attract international business. Or the provision of free education might be undermined by the need to keep taxes low and budgets balanced so as to maintain confidence within financial markets that states will repay their debts. **Name two other concrete examples of ‘global markets’ dictating or restricting national policies!**

3.2. An alternative view suggests that governments have retained ‘room to move’. Consider the following comment published in Forbes:



‘Alibaba's Failed MoneyGram Deal’

“...China's Ant Financial withdrew its bid to acquire Dallas-based MoneyGram International. The bid was stymied by opposition from the Committee on Foreign Investment in the United States (CFIUS), a Treasury Department interagency committee that reviews foreign takeovers of U.S. companies. [...] The Treasury Department is probably right to be concerned about a Chinese company buying MoneyGram and using it to enter the U.S. payments market. After all, the Treasury Department itself uses the global dominance of Visa, Mastercard, and the SWIFT interbank payments system to exert pressure on other countries in the service of U.S. foreign policy goals. As payment systems are controlled by a small number of global giants, it is strategically important that those giants be under domestic control. Of course, the same calculation applies in China. This is a matter of national security, and the United States isn't the only country with a nation to secure. China's internet giants have thrived in a walled garden, protected from competition from the likes of Google and Facebook. The failed MoneyGram deal shows that national security cuts both ways.

Do you agree with the author, that the US and China use their global corporations to exert pressure in the service of foreign policy goals? Does that mean that global corporations such as Google, Facebook, Amazon and their Chinese counterparts Baidu, Tencent and Alibaba have a national agenda?



3.3. Critics of globalisation often identify a gap between *international* markets, on the one hand, and *national* politics, on the other. They believe that worldwide economic problems such as global warming require worldwide political solutions. ***What would be Rodrik's reply to this? Do you agree with him?***