

COMMENTARY

Globalization at the Crossroads: The Neoliberal Bubble Has Burst — Where Do We Go From Here?

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The last three decades of the 20th century witnessed many debates concerning the uneven trends of globalization and the world political economy. During the last quarter century, the neoliberal model of capitalism has been resoundingly endorsed as a foundation for global economic development. This model has dominated institutionally as the embodiment of the ideal of *laissez-faire* in economic policy, direct foreign investment, international trade, and foreign exchange. But with the global recession, many tenets of the neoliberal model of capitalism have apparently failed, and for the first time in perhaps fifty years, we are presented with the opportunity and challenge to create a new twenty-first century model of capitalism for internationalized markets in a global economy.

The universal claim of neoliberal capitalism as an economic theory embraced the notion that the unfettered global market should primarily remain in the hands of private actors. Adjectives describing this model of capitalism include references such as “free” markets or *laissez-faire* markets. Under neoliberal capitalism and its policies, nation-states were asked to link their domestic economies to the idea of “free” market efficiency so much so that most state-led economic development was deemed grossly inefficient for both the communist and the post-war capitalist world. This neoliberal methodology played out in the form of reducing both the democratic governance roles and the monitoring roles of nation-states by insisting on the mandated agenda of the privatization of public services, as well as across-the-board deregulation and liberalization of domestic trading and financial markets. The overarching idea of neoliberal models of capitalism was that the total removal of state regulations would lead to rapid global economic growth and improved living conditions for all. The notion of an improved living condition for all would automatically occur as part of a process where profits from those private sector actors in the “free” market and the benefits of the global market related to economic expansion would automatically “trickle down” to all levels of society, thus replacing any mediating or agency role

of government. The marriage of this “free” market ideal based on the concept of efficiency with a “trickle down” economic development policy created a model of capitalism that became known as “neoliberalism.”

The adoption of this 1980s, political-economy approach is most often associated with Ronald Reagan and Margaret Thatcher and is usually combined with the extended role of the International Monetary Fund (“IMF”) in regulating the global debt crisis. This model of capitalism was in sharp contrast to the post-colonialism economic development and trade models that evolved in global markets shortly after World War II economic reconstruction programs. Essentially, under the 1980s neoliberal model of capitalism, the chief leadership group who carried the banner came to be known as the “Washington Consensus,” and this group of Western policy makers continued to evolve well into the late 1990s.

Since its inception, the neoliberal model of capitalism seemed to exist in an endless bubble of market expansion, despite the growing debate about uneven global development and unfair trade practices. Many economists and policy makers argued that the “trickle down” approach was not working effectively. In addition, many argue that the neoliberal model has actually promoted the breakdown of state economies, as national capital was no longer embedded within a state’s geographic border. Multinational corporations and their financial networks control both the global organization of private exchange and the roles of global institutions, to the extent that nation-states were no longer able to direct national economies, based solely on their own domestic public policy or democratic agenda. States have increasingly become captive to a single global production system supported by what has gradually become known as “foot-loose” transnational capital. In addition, the promotion and continuation of this neoliberal model of capitalism regularly ensured the replacement of the nation-state’s historical agency role in legislating market regulation and in balancing domestic policy in support of creating a “public common good,” called civil society. In its

place, an expanded and new “free” market system within this ever-expanding neoliberal bubble of capitalism sustained globally mediated economies promoted by the private sector, which intentionally designed a system that allowed capital flows across national boundaries in deliberate defiance of State regulations.

Neoliberal models of capitalism have also routinely ensured a continuing flow of international goods, resources and services based on a precalculated formula of supply and demand, so that in the name of “global efficiency,” this model of capitalism promoted geographic relocation of production cycles to anywhere in the world, in search of the lowest possible labor costs and the highest possible reward. Supported for the last thirty years or more by neoclassical thinkers, the neoliberal model of capitalism promulgated the notion that national competitiveness had absolutely nothing to do with national prosperity. However, much of the current global recession, and certainly the economic global indicators of the last calendar quarter in 2008, suggest that many, if not all, of the underlying tenets of the highly revered neoliberal model of capitalism are failing miserably. The neoliberal bubble appears to have burst. Current economic reverberations continue to be analyzed and reported from many corners of the so-called neoliberal “free” market as the global recession deepens.

While it may seem unwise to consider developing a new model of capitalism before the eulogy for neoliberalism is resoundingly recited in all corners of the global marketplace, one only needs to read the national headlines of many global newspapers to conclude that the “less government regulation” mantra and “trickle down” economic development platform of the neoliberal model of capitalism is not the answer to the massive global recession. In fact, the unregulated global ideal touted by neoliberal laissez-faire market models may actually have been a persistent and underlying cause of the global economic downturns that most governments are now wrestling with to correct. Furthermore, the tension continues to build as private actors from within the neoliberal model of capitalism seem to consistently operate with total disdain for the roles of civil society and regulatory mechanisms (or “agency roles”) assigned to democratic governments.

Blindsided, neoliberal advocates continue to embrace an obsession for short-term material rewards based solely on greed and to create global instability through the unregulated movement of capital across state boundaries, regardless of the long-term impact on domestic or regional financial markets. Thus, as the asymmetrical impact of neoliberalism within its espoused “free” market systems appears to increase exponentially across the world, the continuing socioeconomic downturn attached to decreased worker production and increased job loss are matched, only with bank and financial institutional acquisition, collapse, or foreclosure. As governments develop new risk allocation policy and scramble to use public dollars to pick up the pieces of an unregulated

but failed global economic model dominated solely by private actors, the neoliberal ideal of “trickle down” economics is no longer operationally relevant or ethically sound.

Yet in the midst of the demise of neoliberal capitalism and its economic policies, we are quite possibly on the brink of the most exciting “qualitative shift” in debates about capitalism and global market development. This shift offers tremendous hope for the development of a more humane face of capitalism based on a planning process that addresses two major issues: (a) designing “choice sets” that move the internationalized market to finally sever its remaining ties with the neoliberal model of capitalism, and (b) constructing a more dynamic model for capitalism, one that is designed to embrace all three forms of capital—economic, human and social capital—in a more accountable and transparent internationalized market system that can support a sustainable global economy.

This qualitative shift offers tremendous opportunities and challenges for a paradigm shift. Perhaps the most significant contribution of international lawyers, policy analysts and program developers in this shift is to insistently pursue a more intentional public conversation, so that globalization programs and policy development for the twenty-first century is permanently severed from its twin of neoliberalism. This is how a more creative form of capitalism in the internationalized market will be “effectively and efficiently designed” to support a variety of concerns, including the respect for various cultural contexts and domestic market development and sustainability.

In addition, any new model for capitalism will need to support a strategy for meaningful socioeconomic development as nation-states reclaim their agency roles and begin to mediate broader, more workable visions of national, regional and continental links—links that support socioeconomic stability and simultaneously promote global institutional coherence and accountability.

This new strategy also will need to focus on the initiation and development of a sustained interdisciplinary approach, one that recognizes globalization as an evolutionary process and embraces a more systematic foundation that relies on a wide variety of modern legal, economic and social critiques—critiques such as those promulgated by modern scholars Joseph Schumpeter, Amartya Sen, and others. The need for this interdisciplinary approach was evident most recently at the London G-20 meeting in March 2009, as the unevenness of capital accumulation under the neoliberal model of capitalism has begun to push the margins of public global policy discussions. Many leaders will need to seek for new interdisciplinary definitions about the historical concepts linked to the wealth of nations, the definition of the “economic man,” and the redefinition of an expanded global economy within an internationalized marketplace. An interdisciplinary planning process will need to define a more acceptable global context and application of the classical economic theories espoused by Milton Friedman and John Maynard Keynes.

After all, immediately after World War II, it was British Delegate John Maynard Keynes who at the original Bretton Woods conferences suggested that one international currency be created and that the IMF serve as an international central bank. The idea was that the IMF could automatically recycle monies from countries with balance of payments surpluses to countries with deficits, thus ensuring global equilibrium in such a way that deficit countries would not always have to cut imports and standards of living in order to restore market balance.

A new model of capitalism should also link the current political economy debate more closely with the historical definitions of natural law and human dignity. It should perhaps even embrace a more informed twenty-first century “look-back” at philosophers such as Adam Smith who not only developed the ideal rationale in support of the wealth of all nations but also, in a companion text on market ethics and moral sentiments, espoused a collective and supportive agency role for government oversight in the marketplace. Needless to say, efficient markets are not automatically secured with the notion of *laissez-faire* because there is no such thing as *laissez-faire*. Adam Smith actually intended that the butcher, the baker and the candlestick maker, when “effectively competing,” would automatically make for an improvement in human welfare and the common good. In other words, human capital would not always need to compete with economic capital and then wait for beneficent private actors to open the faucet for a trickle down phenomenon.

So the focus on a new model for capitalism will necessarily embrace radically inclusive public-private partnership development and will need to clearly balance both the structure of the market and the effectiveness of the competition. All forms of capitalism by their very nature are expansive and creative. And as an economic model, capitalism generally always seeks to promote competition, new methods of production, and material rewards. These characteristics are inherently good. Creation of this new paradigm requires a broad “public critique” on the role of government regulation for global marketplace activity, a new definition of laws regulating the incorporation and operation of large global networked corporations, a new ethic of agency relationships for democratic governments and for regional trade agreements, a broadly articulated accountability in the marketplace between economic capital and social capital, and finally, a new global model of stewardship for human capital.

It seems we are at the brink of a new threshold. The operation of “business as usual” is being replaced with an urgent call for accountability unseen in modern times. Not only does the United States have a new presidential agenda to correct the U.S. market recession, but we also are beginning to see a global shift that calls for more immediate accountability in marketplace planning and regulation by international global institutions, including the World Trade Organization, the

World Bank, and the IMF. Many major democratic nations are committing billion dollar, government-sponsored stimulus packages to stabilize their nations’ economies, promote or increase employment and training of workers, and offer support with more effective public monitoring for fledgling financial institutions.

These public sector stimulus packages are supported by tax dollars and are coupled with the notion that there needs to be a tangible “return” of benefit back to sustaining the public good and to supporting civil society at large. These reciprocal and transparent economic partnerships between private actors and public policy makers can continue to support the undergirding of commitments by governments as they struggle to financially salvage the global private sector gone awry. These types of reciprocal policy mandates create a much needed balance to some of the past aggressiveness by the neoliberal model of capitalism that supported an elite global private sector’s need for wealth accumulation at the expense of sustaining civil society. In addition, the notion of reciprocity and a bold new thesis about capitalism is required, so that the continued liberalization of the global economy can graciously move beyond the savage competition model attributed to the neoliberal model of capitalism and its policies—policies that resulted in continuous and well-documented cycles of poverty, inequality, and labor insecurity.

The new model of capitalism should be designed with this public critique. It also must be transparent, since economic liberalization based on normative demands and ethics will, more likely than not, continue to increase before the global recession is resolved. In these times of market transformations, history will not necessarily be made by the most powerful, because continuation of the Westernized neoliberal economic hegemony of the last thirty years may not tell us all we need to know about the margins and frontiers of freedom. The paradigm shift needed in support of the new model of capitalism captures a “representational redesign” process. That is, taking evidence that has been developed to have a particular meaning in one policy context (e.g., taking former neoliberal market policy development about capitalism,) and redirecting the debate to sustain a global economy with its internationalized markets by responsibly critiquing a wide range of “choice sets.” While capitalism as a model generally rests with the cycles of wealth accumulation, reinvestment and capital circulation, the creation of a new model of capitalism can only be embodied if we are willing to embrace the future with an even greater menu of program choices and broadly incentivized public-private partnerships.

Very shortly, legal scholars, international lawyers, and public policy participants will be called upon to critique potential allocation and efficiencies of capital markets, address prudential safeguards for credit markets, and correct the instability of deregulated financial markets. Through debating and designing effective legal systems and targeting

government market regulations, a new group of policy experts will emerge envisioning a more accountable approach in this global paradigm shift—one that can be intentionally designed to assist domestic and regional institutions and their planning bodies to permanently move away from the whims of short-term lending practices, the whispers of credit default, and the “fall out” from unsustainable global market gains. The crucible for the creation of this new model for global capitalism will gradually become the meeting place where meaningful discussions of an individual’s socioeconomic rights are not divorced from global financial planning and regulation, export market and trade development, public-sector spending priorities, and the overall management of domestic policy. In this new model of capitalism, embracing the integration of economic, social, and human capital will be embraced as a global virtue, as this model is routinely incorporated into the scope, design, implementation and enforcement of global lending practices and global trade policy.

The panic surrounding the global recession offers a unique challenge and an opportunity to initiate a public debate and focused planning process around creating and sustaining a new model of capitalism where effective competition in the global economy and the structure of the internationalized marketplace might be better integrated and intentionally designed to reincorporate some of the best principles of human dignity, decent work, equality, and democracy.

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