

Neoliberalism and the Economic Beliefs That Took the World Beyond Sustainability

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“Economics is the mother tongue of public policy and the mindset that shapes society.” — Kate Raworth

The term neoliberalism has been well-known by economists for decades — but what does it have to do with sustainability?

Neoliberalism is a political movement that supports free market capitalism and the reduction of government spending and control. The movement began in 1947 when a small group of economists (including Friedrich Hayek and Milton Friedman) formed the Mont Pelerin Society. At that meeting in Switzerland, they established a neoliberal agenda, based on the work of classical liberal thinkers like Adam Smith, with the goal of countering the threat of state totalitarianism (i.e. centralization) that was spreading under the influence of the Soviet Union. The initial meeting led to the development of a social movement, supported by billionaires and businesses, and the creation of a network of free market think tanks, such as the Cato Institute.

The movement achieved major political support in the 1980’s, thanks to the backing of then United States President Ronald Reagan and British Prime Minister Margaret Thatcher. The two leaders, who were both surrounded by advisors that were members of

the Mont Pelerin Society, implemented a series of neoliberal economic reforms in the early part of the decade to combat the economic stagnation being experienced in their countries. Neoliberalist influences became global in nature through structural adjustment programs (loans or subsidies given to countries experiencing financial hardship to increase their economic viability) of the International Monetary Fund (IMF), the World Bank, and the “free trade” rules of the World Trade Organization.

Neoliberalism is based on the circular flow model of neoclassical economic theory. The circular flow model explains how resources and goods and services move throughout the economy. It has been a significant component of macroeconomic policy since the 1950's. This simple mechanical model, however, makes invalid assumptions about rational actors, the availability of information, and perfect competition that are necessary to meet the conditions of a free market. Furthermore, the model excludes nature and society and seeks to privatize “the commons”: the natural and cultural resources that we all share. It also promotes trade as “win-win” despite the power imbalances that exist between overdeveloped and underdeveloped nations at the negotiating table. The structural adjustment programs of the IMF and World Bank, aimed at poverty reduction based on neoliberal principles that privatize state assets and common property systems, removed subsidies for essential industries and privatized services such as education and healthcare.

While industrial societies benefited from increased access to resources at favourable prices, developing countries were plunged further into poverty and debt. The so-called free trade rules negotiated under World Trade Organization tilted the terms of trade in favour of wealthy countries, reducing the ability of developing countries to escape the debt burden and develop their own economies.

The power of the Neoliberal movement has undermined each of the three criteria for sustainable use of natural resources, as defined by ecological economist Herman Daly:

1. The withdrawal of resources cannot exceed the regeneration of resources;
2. Waste generation cannot exceed ecosystem ability to process waste;
3. In the long term, non-renewable resources cannot be utilized at all.

Donella Meadows, based on her work forecasting the limits to economic growth, added that to be socially sustainable, capital stocks and resource flows must be equitably distributed and sufficient to provide a good life for everyone.

The unsustainable use of natural resources by society has led to the point where they are declining at a greater rate than they can be replenished, a point known as “ecological overshoot”. In addition to the overexploitation, rapidly growing inequality has led to rising social tensions and displays of extremism, such as the storming of the US Capitol in 2021 and the migration of people from underdeveloped regions of Latin America and Africa northwards to the USA, Canada, or Europe as they attempt to escape the poverty created by the unequal exchange of neoliberal capitalism.

The current overexploitation of natural resources and pollution of oceans and atmosphere led Earth System scientists to call our present position on the geological time scale the Anthropocene because it was largely created by the impacts of humans on the global environment. The change from the previous Holocene (a relatively long period of stable climate) to the Anthropocene with its rapid global warming mostly occurred during the Great Acceleration a period of exponential industrial and technological development that occurred after World War II. The IMF World Bank and the World Trade Organization were developed during this period. They established economic policies influencing the relationships among developed and developing countries that favoured industrial societies in the global north. Developing countries in the global south were treated as sources of cheap material and labour to support economic growth in the north. These neoliberal economic policies have reduced human relations to the cold-hearted and flawed logic of the market. This situation caused ecological economist Richard Norgaard to call the current geological period the Econocene, instead of the Anthropocene to emphasize the role of neoliberal economics and its underlying beliefs in the creation of global change and instability.

Goal 12 of the United Nations Sustainable Development Goals (SDGs) relates to responsible production and consumption. This cannot be achieved until society at large is aware of how they are being driven by neoliberal economics to the self-destructive consumption that is exploiting the planet beyond sustainability. Goal 14 and 15, on protecting nature, and Goal 13, on climate change, cannot be achieved under the current premise of the SDGs that is based on the entrenched beliefs of mainstream economics and their influence on policy. Everybody has a role to play in changing their behaviour and changing economic policy. What will you do to change the economic policy goals that foster excessive consumption of everything and the overexploitation of nature? How can we change our behaviour to support the sustainable production and consumption of natural resources as required by Goal 12?

¹ Free-market capitalism means that the laws of supply and demand rather than central government regulates production, labour and the marketplace, giving the private sector much greater control over the economy than national governments.

² Hayek and Friedman were both members of the Chicago School of Economics and were both awarded the Nobel Prize in Economics in 1974 and 1976 respectively, lending academic support to the principles of neoliberalism (Hickel, 2018).

³ Mount Pelerin Society <https://www.montpelerin.org/>.

⁴ The Cato Institute seeks to create free, open, and civil societies based on libertarian principles that minimize the state and maximize individualism <https://www.cato.org/about>

⁵ Hickel, J. 2018. *The Divide: Global Inequality From Conquest to Free Markets*. W.W. Norton, London.

⁶ <https://www.investopedia.com/terms/circular-flow-of-income.asp>

⁷ <https://www.investopedia.com/articles/economics/08/free-market-regulation.asp>

⁸ Raworth <https://www.kateraworth.com/2012/07/23/why-its-time-to-vandalize-the-economic-textbooks/>

⁹ Daly, H. 2007. Ecological Economics and Sustainable Development Selected Essays of Herman Daly. Edward Elgar Publishing, Cheltenham UK.

¹⁰ Donella Meadows 1999. “Sustainable Systems” Lecture at the School of Business Administration, University of Michigan. <https://www.youtube.com/watch?v=vJ1STks8MUU&t=4s>

¹¹ <https://www.theatlantic.com/culture/archive/2021/10/hbo-four-hours-at-the-capitol-january-6-documentary-review/620464/>

¹² Steffen et al 2018. The trajectory of the Anthropocene: The Great Acceleration. The Anthropocene Review 2015, Vol. 2(1) 81–98 DOI: 10.1177/2053019614564785.

¹³ Norgaard, R., 2015. The Church of Economism and its Discontents. The Great Transition Initiative. <https://greattransition.org/publication/the-church-of-economism-and-its-discontents>