The Neoliberal Collapse

Markets Are Not the Answer

By Miatta Fahnbulleh January/February 2020

Enter stage left: the Labour Party leader Jeremy Corbyn in London, October 2019

Capitalism is in crisis. Until recently, that conviction was confined to the left. Today, however, it has gained traction
across the political spectrum in advanced economies. Economists, policymakers, and ordinary people have increasingly come to see that neoliberalism—a creed built on faith in free markets, deregulation, and small government, and that has dominated societies for the last 40 years—has reached its limit.

This crisis has been long in the making but was brought into sharp focus in the aftermath of the global financial meltdown of 2007–8 and the global recession that followed it. In the developed countries of the Organization for Economic Cooperation and Development, economic growth over the last decade ceased to benefit most people. At the end of 2017, nominal wage growth among OECD members was only half what it was a decade earlier. More than one in three people in the OECD countries are estimated to be economically vulnerable, meaning they lack the means to maintain a living standard at or above the poverty level for at least three months. Meanwhile, in those countries, income inequality is higher than at any time in the past half century: the richest ten percent hold almost half of total wealth, and the bottom 40 percent hold just three percent.

Stay informed.

Defenders of neoliberalism frequently point out that although decades of wage stagnation and wealth concentration have led to ballooning inequality in developed countries, the same time period has seen a dramatic increase in prosperity on a global scale. Over a billion people, they argue, have been lifted out of extreme poverty owing to technological advances, investments, and prosperity that were made possible by the spread of free markets. However, this argument fails to
account for the critical role that governments have played in that change through the provision of education, health care, and employment. Such state interventions have arguably been as decisive as the invisible hand of the market in lifting living standards. This defense also ignores the fact that despite many gains in prosperity, massive wealth concentration and staggering inequality continue to shape the global economy: less than one percent of the world’s population owns 46 percent of the world’s wealth, and the poorest 70 percent own less than three percent.

Inequality has always been a feature of capitalist societies, and people have been willing to tolerate it as long as they felt that their quality of life was improving, their opportunities were expanding, and their children could expect to do even better than them—that is, as long as all the proverbial boats were rising. When that stopped happening in recent decades, it fed a growing perception that the system is unfair and is not working in the interest of the majority of people. Pent-up frustration has led to a clamor for change—including a new receptivity to socialist ideals that have long been sidelined or even considered taboo. In the United Kingdom, for example, 53 percent of people recently polled said they believed that the economy has become more unfair over the last decade. Eighty-three percent said they felt that the economy worked well for the wealthy, but only ten percent said that it worked for people born into poor families. And ideas such as restoring public ownership of the essential utilities that were privatized in recent decades, such as railways, electrical services, and water companies, are gaining traction, with over 75 percent of people polled supporting such a step. Meanwhile, in the United States, a 2018 Gallup poll found that among Americans aged 18 to 29, socialism had a higher approval
rating (51 percent) than capitalism (45 percent). “This represents a 12-point decline in young adults’ positive views of capitalism in just the past two years,” Gallup noted, “and a marked shift since 2010, when 68 percent viewed it positively.”

**Neoliberalism is not just failing people: it’s failing the earth.**

A mere revival of the social democratic agenda of the postwar era, however, would not be sufficient. For one thing, that period’s emphasis on central authority and state ownership runs counter to the widespread demand in developed economies for more local and collective control of resources. Perhaps more important, however, is the need to confront a challenge that postwar social democratic models did not have to take into account: the threat posed by climate change and catastrophic environmental degradation. After all, neoliberalism is not just failing people: it’s failing the earth. Owing in no small part to the massive levels of consumption and fossil fuel use required by an economic model that prioritizes growth above all else, climate change now imperils the future of human existence. Last year, the Intergovernmental Panel on Climate Change concluded that the world has barely over a decade to halve carbon emissions if humanity is to have any chance of limiting the increase in average global temperatures to 1.5 degrees Celsius above preindustrial levels—a point past which the damage to human
and natural systems would be devastating and largely irreversible.

Just like the economic breakdown that has chipped away at people’s quality of life, environmental decline is rooted in the crisis of capitalism. And both challenges can be addressed by embracing an alternative economic model, one that responds to a hunger for genuine reform by adapting socialist ideals to the contemporary era. A new economic model must prioritize a thriving and healthy natural environment. It must deliver improvements in well-being and guarantee all citizens a decent quality of life. It must be built by businesses that plan for the long term, seek to serve a social purpose beyond just increasing profits and shareholder value, and commit to giving their workers a voice. The new model would empower people and give them a larger stake in the economy by establishing common ownership of public goods and essential infrastructure and by encouraging the cooperative and joint ownership of private, locally administered enterprises. This calls for an active but decentralized state that would devolve power to the level of local communities and enable people to act collectively to improve their lives.

A NEW SOCIAL CONTRACT

The United Kingdom provides an interesting case study of how the crisis of capitalism is playing out. There, as in the United States, center-right and center-left governments alike have spent decades following a neoliberal recipe of tax cuts, reduced social welfare benefits, and deregulation—far more enthusiastically than most other European countries, which have stronger social democratic traditions and institutions. As a result, the neoliberal breakdown has been particularly painful in the United Kingdom, where people are on average
poorer today than they were in 2008, adjusting for inflation. British household debt is higher than it was before the financial crisis, as more people borrow just to get by, and a staggering 14.3 million people live in poverty.

For many British people, the 2016 referendum on whether to leave the European Union served as an outlet for their discontent and anger at a failing system. The vote in favor of Brexit was a clear message from communities under pressure that the status quo needed to change. More than three years on, this disquiet continues to grow, opening up space for more radical changes in domestic policy—as witnessed by the Labour Party’s recent embrace of ideas that would once have been considered too risky, such as the renationalization of utilities and the establishment of a state-run pharmaceutical company.

But even in the United Kingdom, political platforms have lagged behind public demands for significant change. What’s needed in developed economies across the world is not tinkering around the edges but a full-scale reformation of the relationship among the state, the economy, and local communities. The first step would be a global Green New Deal: a massive mobilization of resources to decarbonize and at the same time create millions of jobs and lift living standards. The goal should be net-zero carbon emissions within ten to 15 years, which will require governments to make significant investments in green infrastructure, such as onshore and offshore wind farms and smart energy grids; in new technologies such as carbon capture and storage; and in training workers to develop the skills they will need for the jobs a green economy will create, such as installing insulation,
maintaining renewable energy systems, and reconditioning and refurbishing used goods.

Policymakers will also need to create incentives for companies to reduce their carbon use by replacing subsidies for fossil fuels with tax breaks for the use of renewables. New regulations, such as zero-carbon building standards or quotas for the use of fossil fuel energy, would help bend markets that have been slow to act in response to the climate crisis. And central banks will need to encourage financial markets to divest from fossil fuels through tougher credit guidance policies, including capping the amount of credit that can be used to support investment in carbon-intensive activities and setting quotas for the amount of finance that should flow to low-carbon investment.

**Anger at a failing system has opened up space for radical changes in domestic policy.**

To boost sluggish wages, governments should use all the levers of the state—corporate taxes, wage regulations, and subsidies—to incentivize or force businesses to pay their workers fairly. A just share of the rewards from their labor should come not only in the form of higher wages but also in reductions in working time, with a move to an average four-day workweek, which governments can achieve by increasing statutory holidays. At the same time, the power of workers to protect their interests should be strengthened by requiring all companies to automatically recognize labor unions and by
giving workers stronger legal rights to organize, bargain collectively, and strike. Workers must also gain greater ownership of the organizations that employ them. Governments ought to mandate employee ownership funds, which transfer a share of a firm’s profits, in the form of equity, into a trust that is owned by workers collectively. Through the trust, workers would receive shares in the company, just like any shareholder. Those shares would come with voting rights, enabling employees to become the dominant shareholders in every enterprise over time, with the power to shape the direction of the businesses where they work. In the United Kingdom, a growing number of companies, including the department store chain John Lewis, the home-entertainment retailer Richer Sounds, and the consulting firm Mott MacDonald, are already reaping the benefits of putting ownership in the hands of workers: higher productivity, better worker retention and engagement, and stronger profits.

A new social contract with citizens should extend beyond the workplace, however, with the ultimate goal being the establishment of a “well-being state” that would provide everyone with the basics necessary to maintain a decent quality of life. This would require increased investment in the staples of the welfare state, which have been weakened under neoliberal governments, such as guaranteed universal access to high-quality health care and education. But the new approach would go beyond those familiar elements by offering universal access to childcare, public transportation, and minimum income protection—that is, a floor below which no one’s income can fall irrespective of whether a person is employed. These expansions of the welfare state should be funded through progressive taxation that would raise the tax burden on those who can most afford it, by increasing the top
rates for income and corporate taxes and by taxing wealth, such as capital gains, at the same level as income.

POWER TO THE PEOPLE

Top-down policies, however, will not be sufficient to spur the kind of transformation that must take place in developed countries in order to truly shake off neoliberal stagnation and decline. Those societies also must become more democratic, with power and resources distributed to regional and local governments, closer to the people in the communities they serve. This is one critical way in which such a new economic agenda would differ from more traditional socialism, which tends to favor centralized authority and state ownership. For example, rather than relying on federal or provincial governments for everyday essentials, such as energy, affordable housing, and public transportation, municipalities should establish corporations owned by and accountable to residents to provide these services.

The Basque Country, in Spain, offers one example of what a more democratic economy might look like. There, the Mondragon Corporation, set up in 1956 by graduates of a technical college to provide employment through worker cooperatives, has grown to become one of the ten largest business groups and the fourth-largest employer in Spain, with hundreds of different companies and subsidiaries and over 75,000 workers. The cooperatives operate in a variety of sectors, including banking, consumer goods, and engineering. They are set up not merely to turn a profit but also to achieve a specific social or environmental goal. They are owned and run by the people who work for them rather than by external investors, and their governance structures ensure that
members have a stake in the organizations and share in the wealth they create.

Community land trusts in the United Kingdom provide another example. Granby Four Streets, in Liverpool, and the London Community Land Trust, in the Mile End district, provide affordable housing to their local communities by buying land from the private sector and taking it into community ownership. The trust builds affordable homes that it sells or rents to local residents at discounted rates. An asset lock prevents the land from being resold, which guarantees that the homes will remain affordable.

Bottom-up experiments such as these will be critical to the success of a new economic model. For those experiments to flourish, influential political figures who identify with the socialist tradition—people such as Alexandria Ocasio-Cortez and Bernie Sanders in the United States and Jeremy Corbyn in the United Kingdom—should use their platforms to draw attention to local-level activists and organizations that are working to create a more democratic economy. Meanwhile, some degree of patience will be in order: it will take time for such new thinking to produce the large-scale changes necessary. But such patience must also have a limit: when it comes to fixing the damage that neoliberalism has done, time is running out.