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## INTRODUCTION

# Journeys of Political Despondency

### **CREEPING SOCIALISM: THE POSTWAR SPLEEN OF FREE-MARKET ADVOCATES**

The Left has not always held a monopoly on melancholy.<sup>1</sup> Without going all the way back to the exiles of the French and Russian Revolutions, the immediate aftermath of the Second World War was arguably a time when the grim mood currently pervading the left side of the political spectrum weighed more heavily on the advocates of free markets. In both cases, we encounter what psychoanalysis diagnoses as melancholia, namely, the inability to mourn a loss. For the Left of today, it is the loss of socialism—made harder to grieve because its once “actually existing” versions were perverted before they were defeated; for yesteryear’s stalwarts of economic liberalism, it was the loss of *laissez-faire*—a motto that originally formed the core of their creed, but was proven unviable by the Great Depression and the war.<sup>2</sup> In each instance, moreover, the same two institutions fuel the gloom: the labor market and the electoral process. While the Left now sees their respective subjection to the dictates of shareholders and government bondholders as the cause of its own decline, postwar liberal Casandras perceived collective bargaining and universal suffrage as the Trojan horses of socialist totalitarianism.

Emblematic of the depression that engulfed supporters of unfettered markets at the onset of the Cold War, the economist Joseph

Schumpeter devoted his final work—*Capitalism, Socialism, and Democracy*—to showing that capitalism was in critical condition, including in the United States.<sup>3</sup> In his view, what made the impending disappearance of the capitalist mode of production all the more inevitable—yet all the more unfortunate—was that it resulted from its own success. For since the eighteenth century, Schumpeter argued, it was above all to entrepreneurs that the Western world owed its extraordinary development: their boldness had been the prod of scientific progress, their ingenuity had been the driving force that turned inventions and discoveries into innovations, and their determination to profit from the opportunities they created for themselves had served as the engine of economic growth—with benefits that then spread to all social categories. And yet, Schumpeter added, the prosperity brought by entrepreneurial dynamism ended up working against its providers.

The author of *Capitalism, Socialism, and Democracy* traced the decline of economic liberalism to an endogenous—and thus inevitable—evolution in the legal framework of businesses. He stressed that the virtuous cycle of technological progress—whereby improved productivity successively lowered prices, boosted aggregate demand, and stimulated fresh innovations—had not only spurred captains of industry to build factories big enough to harness economies of scale. Since the forces of “creative destruction” unleashed by capitalism required ever-larger investments, companies wholly owned by heads of dynastic families came to be supplanted by publicly traded corporations, where numerous and dispersed shareholders surrendered power to salaried managers.<sup>4</sup>

Within such organizations, the economist went on, the visionary intuitions of entrepreneurs driven by their daring and their greed soon gave way to sensible plans drawn up by technocrats. The latter, Schumpeter conceded, still sought to innovate and to grow the firms they ran; however, instead of risking their fortune to defeat their competitors, as had been the penchant of entrepreneurial daredevils in capitalism’s

heroic times, they prioritized the perpetuation of their industrial and commercial activities. As internal company growth became their objective, corporate managers relied increasingly on the proprietary technologies developed by their organization, which made them understandably keen to secure the loyalty of their personnel—notably through labor contracts offering job security and social benefits. Yet in doing so, their main concern ceased to be the maximization of profit for capital owners. Instead, they primarily endeavored to reconcile the demands of employees with the interests of shareholders.

While the pursuit of compromise between labor and capital that characterized the management of publicly traded corporations already fostered solidarity among workers, Schumpeter argued that the budding class consciousness of wage earners would not have fed on hostility to employers had it not been for the growing influence of intellectuals. Here again, he explained, the accomplishments of entrepreneurs lay behind the animosity they encountered. For the sciences and technologies that flourished as a result of their initiatives increased the demand for skilled labor, which in turn fostered the vocational appeal of the intellectual professions—teachers, scholars, but also journalists and cultural critics. Yet by themselves, soaring numbers and improved standing did not turn intellectuals into a class endowed with common interests. According to Schumpeter, the feature that actually unified this otherwise loosely defined social group was its antipathy to entrepreneurial values.

Intellectuals, the economist fumed, were typically brimming with purely theoretical knowledge, while business demanded practical skills; they boasted about the disinterested nature of their work, whereas self-interest was the avowed motive of the entrepreneur; they were reluctant to measure success by the yardstick of risk, which was the mainspring of the entrepreneurial spirit; and, above all, they were offended by the contrast between the low remuneration of their contribution to human improvement and the great fortunes selfishly

amassed by capitalists. Schumpeter thus contended that resentment had moved intellectuals to use their newfound prestige in public opinion not only to denounce businessmen's vulgarity and venality but also to persuade workers that the exploitation of their labor was the key to their employers' success.

Not content with their role as tribunes of the people, the author of *Capitalism, Socialism, and Democracy* continued, these same intellectuals would soon offer their services to trade unions. Then, having radicalized organized labor, they would set out to mold socialist politicians and draft the programs of their parties. While aware of the growing hostility to which it was exposed, the liberal bourgeoisie did not alter its principles in response. In particular, it continued to pride itself on protecting freedom of association and extending the principle of free competition to the selection of political representatives. Hence Schumpeter's conviction that its demise was imminent: along with their relative numbers in the electorate and their concentration in assembly lines whose operation they could easily disrupt, the workers' susceptibility to the critique of capitalism formulated by their intellectual mentors seemed to him incompatible with the survival of the free world.

As anachronistic as it seems today, the gloom in which Schumpeter wallowed harbors an invaluable suggestion. Indeed, to recall that despondency has not always dwelled in the same camp invites us to imagine that it could switch sides once again. Such is the premise of this book's remaining pages, which will consider what conditions might cause melancholy to revert to the Right. By way of introduction, however, a few lessons must be drawn from the previous episode of the black bile's travels.

There is certainly no dearth of excellent work devoted to the circumstances that, over the course of the 1970s, darkened prospects for transcending or even just containing capitalism: some accounts emphasize the stagnation that resulted from the completion of Europe's economic reconstruction; others, the concomitant exhaustion of Fordism and

the social movements to which it gave rise; others still, the opportunities that oil crises and floating currencies afforded to capital owners. Yet regardless of their focus, the authors who attribute the waning of socialist ideals to these various factors tend to couch them in two overlapping narratives—one centered on neoliberalism, the other on the financialization of developed economies—that they sometimes use interchangeably but seldom bother to disentangle.

Neoliberal reforms—especially those pertaining to market deregulation—have certainly been instrumental in the empowerment of financial institutions. However, according to their promoters, these reforms were meant to restore entrepreneurialism, not to establish the hegemony of finance. In other words, what they eventually delivered does not coincide with their alleged purpose. Far from being a purely academic issue, the divergence between the neoliberal project and its unintended—or at least unannounced—consequences has crucial political implications. For if the process of capital accumulation has investors, rather than revamped entrepreneurs, in the driver’s seat, the effectiveness, but also the morale, of its challengers are likely to depend on their willingness and ability to adjust their resistance to the power of their foes. Therefore, taking stock of what separates the neoliberal agenda from the “actually existing” regime created by its implementation may go some way toward dispelling the melancholy of the Left.

## **ENTREPRENEURSHIP FOR ALL: THE NEOLIBERAL PRESCRIPTION FOR MELANCHOLY**

The term “neoliberal” refers to the doctrinal revisions and strategic innovations that enabled some die-hard custodians of the classical liberal creed to chase away the feeling that history was not going their way.<sup>5</sup> Brought together by Friedrich Hayek, the international group of scholars who founded the Mont Pelerin Society in 1947—and whose other leading figures included the German editors of the journal

*Ordo* and Milton Friedman's circle at the Chicago School of Economics<sup>6</sup>—adamantly refused to give in to the Schumpeterian pessimism that was then prevailing in their camp. Yet at the same time, they shared Schumpeter's worries about the deficiencies of the free world's immune system. Though begrudgingly conceding that as integral parts of the liberal heritage, freedom of association and universal suffrage could not be altogether forsaken,<sup>7</sup> they feared that the confiscation of the former by trade unions and the sway of demagoguery over the latter were speeding Western societies down the socialist "road to serfdom." To avert such a tragic fate, the economists, jurists, and historians later called "neoliberals" by their critics<sup>8</sup> made it their mission to design the safeguards that would protect representative democracies from the heedless use of the civil and political liberties they granted.

In their view, the threat faced by liberal societies had less to do with the revolutionary fervor of the masses than with the corrosive incidence of Keynesian countercyclical policies—fiscal stimuli and lowered interest rates to ward off recession as well as temporary price and salary indexation to tame inflation. The affiliates of the Mont Pelerin Society certainly recognized that such measures were not meant to deliver socialism: on the contrary, their promoters intended to prevent market failures and, by that token, sustain the faith of Western citizens in their liberal institutions. However, the consensus among what the economic historian Philip Mirowski aptly calls the neoliberal "thought collective" was that, goodwill notwithstanding, attempts to fine-tune the business cycle always proved far more damaging than the flaws they were purported to mend.

Hayek, in particular, charged that, far from protecting markets against themselves, the Keynesian propensity to tinker with the price mechanism rendered them fatally dysfunctional. As he saw it, market prices are precious signals indicating in real time to each member of a society what the others want and have to offer. By contrast, when public authorities interfere with price negotiations, economic agents no



longer can gather the information they need to make their own plans autonomously, which in turn makes them more likely to tolerate and ultimately require more intervention on the part of the state. Typically, Hayek argued, when governments endeavor to counter business-cycle downturns, either by boosting domestic demand or by maintaining salaries artificially high, their intrusiveness scrambles the signals sent by prices. Because the ensuing confusion deprives their constituents of the ability to make informed choices on their own, public officials will then feel justified to tighten the grip of central planning at the expense of individual freedom and self-reliance.

Determined to save the free world from what the author of *The Road to Serfdom* labeled “creeping socialism,” neoliberal luminaries devised a coherent set of measures that the leaders of the “conservative revolution” would begin to implement at the turn of 1980s. More than just to rehabilitate the original spirit of capitalism, their ultimate goal was to extend the purchase of the entrepreneurial ethos. The latter, they vowed, had to be brought back to the heart of business management so as to curb the technocratic drift of corporate culture already deplored by Schumpeter, but also actively sustained by public authorities—rather than just sheltered from their meddling—and, most importantly, adopted by people who were not professional entrepreneurs. The members of the Mont Pelerin Society wagered that once retrained by the reforms they championed, even people who supported themselves by selling their labor power would be enticed to treat their life as a business: in the face of any given choice, instead of looking to the state, special-interest groups, or intellectual mentors for guidance, they would estimate the costs and benefits that could reasonably be expected from all their available options and select what appeared to be the most profitable course of action.

Insofar as neoliberal reformers assigned governments the task of dissolving the class consciousness of workers—instead of either urging them to keep out of private business matters or, conversely, condoning

the use of their resources to appease the working class—they strayed as much from previous upholders of economic liberalism as from Keynesian supporters of the welfare state. Their agenda thus broke new ground in two major respects.

First, as Michel Foucault famously stressed in his 1979 lectures on neoliberalism, Mont Pelerin doctrinaires lay *laissez-faire* to rest once and for all by showing that the restoration of the liberal order was less about getting the state out of people’s lives than about getting public officials to govern in the interest of the market.<sup>9</sup> Indeed, for them, a good government was not primarily meant to refrain from encroaching upon civil liberties and was certainly not supposed to shelter the governed from the hazards and harshness of the capitalist mode of production: instead of protecting the most fragile sectors of the population against the violence inherent in market competition, it should assume the task of preserving the fragile mechanisms of the market from the impatience of the crowd and its exploitation by demagogues.

To keep public officials on the right track, the neoliberal thought collective advocated the creation of a legal and institutional environment wherein elected representatives would be shielded from the temptation to tamper with real prices in order to win votes. The measures purported to contain the trustees of popular sovereignty included constitutional provisions limiting or prohibiting fiscal deficits—a guideline often referred to as the “golden rule”;<sup>10</sup> the devolution of monetary policy to central bankers, whose alleged independence was limited only by their mandate to ward off inflation;<sup>11</sup> the privatization of all the public goods and utilities that private investors were eager to fund;<sup>12</sup> and the substitution, whenever possible, of contractual settlements for compulsory regulations—especially with regard to what economists call “externalities,” the incidence of commercial transactions on third parties.<sup>13</sup>

Second, instead of envisioning class conflict as a fact to reckon with—whether by seeking compromises or by taking sides—the intel-

lectuals associated with the Mont Pelerin Society endeavored to make it obsolete by achieving what one of them called the “de-proletarianization” of the wage earner.<sup>14</sup> Designed to help workers and employees embrace the mindset and behavior of entrepreneurs, neoliberal social engineering involved access to home ownership for as many people as possible;<sup>15</sup> contractual, rather than socialized, systems of protection against risks, such as funded pensions and private health care coverage;<sup>16</sup> vouchers given directly to needy families instead of public investments in schools and low-income housing;<sup>17</sup> and consolidation of all other types of public assistance into a negative income tax, set at a level low enough so as not to “incentivize laziness” among its beneficiaries.<sup>18</sup>

Getting middle-class and working-class households in the habits of paying off their mortgages, of honoring their insurance contracts, and of managing the resources provided to them in the forms of vouchers and negative taxes was not meant only as a disciplinary exercise: more than simply compelling people living off the sale of their labor power to trade their “socialist” ideals of solidarity and wealth redistribution for the liberal principles of individual freedom and accountability, neoliberal trailblazers wished to convert them to the entrepreneurial virtues, thereby eroding their sense of belonging to a social class whose interests clashed with those of entrepreneurs.

Back in 1947, when Friedrich Hayek founded the Mont Pelerin Society, most of the economists, social scientists, and legal scholars who joined him in the Swiss Alps were perceived as outlandish figures dwelling at the right end of the political spectrum—among the participants, only the German ordoliberals were influential in their own country. Their relative marginalization lasted almost thirty years: things began to look better for them in 1974, when Hayek received the Nobel Memorial Prize in Economic Sciences and Augusto Pinochet invited a group of Milton Friedman’s disciples to help him make “Chile not a nation of proletarians, but a nation of entrepreneurs.” Yet

in the developed world, it would be up to the British and American leaders of the “conservative revolution” to fully embrace the neoliberal art of governing.

Respectively elected in May 1979 and November 1980, Margaret Thatcher and Ronald Reagan were determined to enact the two prongs of the Mont Pelerin program—that is, mobilize the resources of the state to bolster markets and induce their constituents to manage their lives as businesses. Though initially perceived as revolutionary, insofar as they inverted Keynesian priorities, neoliberal policies soon came to express the new orthodoxy—even beyond the United Kingdom and the United States and irrespective of whether conservative or social-democratic parties were in power.

Confronted with neoliberalism’s gradual takeover of common sense—at least among mainstream politicians, economic elites, and media pundits—its detractors on the Left were understandably inclined to attribute their own disarray to the successful implementation of the neoliberal project. On the one hand, they blamed the impoverishment of democratic debates on the combined effects of the shackling of fiscal and monetary policies, the transfer of formerly public goods and services to private capital, and the replacement of mandatory regulations by contractual settlements predicated on the issuance of tradable claims. On the other hand, they came to impute the growing impotence of their own critiques and ideals to the corrosive impact that representations of the individual as self-entrepreneur had on wage earners’ class consciousness and capacity for indignation.

## **RAISING EXPECTATIONS: LIFE UNDER FINANCIALIZED CAPITALISM**

While scholarly studies of neoliberalism describe the anatomy and triumphal march of an art of governing, the literature on the hypertrophy of finance recounts the emergence of a new regime of capital accumulation.<sup>19</sup> Since the late 1970s, Western economies have experi-

enced what the sociologist Gerald Davis characterizes as a Copernican revolution. They no longer revolve around the industrial corporation wagering its prosperity on vertical integration and internal growth, as in the Fordist era. Instead, both the corporations and the economies of which they are a part revolve around financial markets dominated by large universal banks and institutional investors.<sup>20</sup>

The financialization of developed economies can be measured by the relative size of the financial sector in their GDP, the volume of profits made by financial companies compared with those of other enterprises, and the proportion of portfolio income—relative to commercial cash flow—in the accounts of nonfinancial firms.<sup>21</sup> However, over and above such indicators—the examination of which corroborates the thesis of a massive transfer of funds from the “real economy” to speculative financial circuits—what truly manifests the ascendancy of credit suppliers is their ability to select the projects that deserve to be financed. Ultimately, their power consists more in deciding what the real economy will comprise than in draining it of resources. The hegemony of finance is therefore bound to modify the conduct and expectations of those who experience it. For if economic agents are now primarily intent on making themselves attractive to investors, what they pursue is arguably less the profit yielded by their professional activity than the credit necessary to exercise it.<sup>22</sup>

Initial evidence for this behavioral shift comes from the strategy of publicly traded firms. What for more than three decades has been called “corporate governance” does not aim to maximize the difference between sales revenues and production costs over the long term. Its sole objective is eliciting an increase, in the very near future, of the value assigned by financial markets to the stock held by shareholders. A corporation’s real success does not reside in the profits generated by the sale of the goods or services it produces but in the capital gain resulting from its next share sale. That is why practitioners of “good” governance so often use a substantial portion of their resources to “buy

back” shares of their own company. Absurd as a commercial or industrial strategy, this practice is nevertheless sound when, in order to be “competitive,” a CEO must attract investors whose sole concern is the shareholder value of the firms they finance.

The primacy of credit is not confined to the private sector. Meeting the preferences of the holders of their public debt has also become the main preoccupation of national governments. Rather than reviving growth or forwarding the transition of their economies toward sustainable energy sources, public officials are primarily committed to boosting the attractiveness of their territory to bond markets. To avert the distrust of bondholders—which is expressed by a rising interest rate on treasury bills and bonds—political rulers who want to appear responsible cater to their creditors’ famously predictable tastes by increasing the flexibility of their labor market, cutting social programs, slashing corporate and capital-gains taxes, and putting off any serious regulation of financial institutions.<sup>23</sup>

Finally, the pursuit of creditworthiness also informs the conduct of individuals,<sup>24</sup> including those who once staked their economic security on stable jobs, regular pay raises, and guaranteed social benefits. Since both corporations and states have made it their priority to sustain the confidence of investors, employers and governments are no longer in a position to promise lifelong careers to their employees and constituents. It is now up to job applicants to make themselves valuable, either by advertising highly prized skills and an appealing address book or, failing that, by displaying unlimited availability and flexibility. Altogether, their ability to find work depends more on the credit attributed to their human capital than on collective agreements about salaries and labor conditions.<sup>25</sup>

The material precarity created by this alteration in the conditions of recruitment forces large swaths of the population to borrow, whether in order to access real estate, continue their studies, acquire consumer durables, or simply survive. Yet anyone hoping to obtain a loan must

offer guarantees. In the absence of sizeable assets, aspiring borrowers generally rely both on prospective collaterals—such as the market value of the house they wish to buy or the income that the degree they want to get is purported to generate—and on the reputation for reliability they have acquired by repaying previous loans. Demonstrating their solvency, whether predicated on actual resources, a reputable record, or wise projects, enables borrowers to sustain their creditworthiness—moral, as much as financial—thereby persuading creditors to keep lending to them.<sup>26</sup>

Historically, the ascent of financial capitalism has largely resulted from the implementation of the Mont Pelerin agenda. Even prior to Margaret Thatcher and Ronald Reagan's conservative revolution, a group of economists and legal scholars of neoliberal observance—the founders of the Law and Economics Program at the University of Chicago—were instrumental in legitimizing the claim that the pursuit of shareholder value should be the focus of corporate governance.<sup>27</sup> Worried about the technocratic drift of corporate culture already denounced by Schumpeter, these disciples of Milton Friedman blamed the declining productivity of the American economy on the disconnection between power and ownership within corporations. In their view, once they were empowered by the dispersion of stockholders, managers had ceased to assume that maximizing the distribution of profits to capital owners was their mission. Instead, they prioritized the development of the firm's productive capacities—which meant that maintaining a high rate of reinvestment took precedence over satisfying employees but also over shareholders' demands. Furthermore, in order to keep both labor and capital providers acquiescent, they attended to the reinforcement of their own power by filling their board of directors with cronies and negotiating mutually beneficial deals with public authorities.

Law and Economics scholars charged that the strategic priorities characteristic of managerial capitalism were conducive to a progressive

interpenetration of the private and public sectors: they argued that on account of the cultural affinities between the salaried managers of large corporations and senior civil servants, the former were not only prone to behave like the latter—thereby entrenching the technocratic turn of business culture—but also relied on their assistance to evade competition. To reverse these unfortunate tendencies, neoliberal reformers called for the creation of an institutional environment wherein corporate managers would be once again compelled to do the bidding of their employers. As Milton Friedman wrote in a famous opinion piece, those entrusted with the task of managing a company they do not own must be made to recognize that their only “social responsibility” is to meet the expectations of shareholders.<sup>28</sup>

For the promoters of the Law and Economics agenda, restoring the subordination of corporate managers to capital owners called for a new type of competition. Henry Manne, in particular, argued that preventing salaried CEOs from imposing their agenda and personal ambitions—however dressed up as the firm’s best interests—required the institution of a “market for corporate control.” Such a market, he claimed, would enable actual and potential shareholders to choose, keep, or replace a managerial team based on its ability to increase the value of the capital under its care.<sup>29</sup> In other words, the kind of corporate governance Manne promoted would subject the fate of managers to the impact of their decisions on the price of the corporation’s stock.

By the mid-1970s, the Law and Economics approach to governance had already made major headways in business schools. Its growing prestige was largely due to the declining profitability of Fordist vertically integrated firms in search of the economies of scale.<sup>30</sup> However, it was not until the election of Ronald Reagan that a propitious environment for generalizing the new mode of governance was created. Guided by neoliberal precepts, the new Republican administration hastened to remove the obstacles to hostile tender offers and leveraged buyouts, thereby enabling “raiders” to take control of underperforming



firms—underperforming with respect to their shareholder value. By virtue of deregulating capital markets, US authorities were thus instrumental in impressing upon corporate managers that raising the stock price of their company was their only mandate.

While helping corporate managers understand that their job was to create value for the shareholders, the deregulatory measures pioneered by the Reagan administration—and gradually replicated throughout the Euro-Atlantic world—rapidly proved equally transformative of statecraft. Indeed, the involvement of governments inspired by the neo-liberal doctrine in the emergence of corporate governance would soon affect the definition of their own economic agendas. For if they were to enhance the competitiveness of their country's private sector in a global environment where financial capital could travel freely, public officials had to make the territory under their jurisdiction as attractive as possible to international investors. They thus staked the success of their own tenure on their capacity to lure liquidity handlers with a business-friendly tax code, a flexible labor market, and strong property rights.

While such perks did draw the desired flows of financial capital, governments quickly realized that offering them had a cost: for the measures that were appealing to investors deprived their own budgets of a significant portion of the tax revenue hitherto allocated to their citizens' welfare. Though unwilling to question the wisdom of market deregulation, they still feared that their new priorities could make them unpopular enough to darken their prospects for reelection. Eager to sustain the reputation of their territory among creditors without losing their appeal among voters, elected leaders increasingly opted to substitute borrowing for taxation. In other words, they assumed that the clash between investors' wishes and their constituents' needs could be avoided only through a swelling public debt. Yet by resorting to bond markets to balance their budgets, the heads of states and governments whose deregulatory initiatives had subjected the fate of corporate managers to the whims of the stock market ended up putting

themselves in a similar situation. For once reliant on borrowed funds to fulfill their missions as providers of public goods and social protection, they too became dependent on the confidence of their creditors.<sup>31</sup>

As had already been the case with corporate governance, the sway of investors' tastes on political representatives was justified in neoliberal terms: financial markets were praised for the discipline they allegedly imparted to economic agents. Making governments accountable to bondholders, the reasoning went, would keep their propensities to overspend and overreach in check: instead of indulging the demands of "special-interest groups" to secure their own reelection, the fear of jeopardizing the trustworthiness of their treasury bills and bonds would persuade them to exercise the same kind of restraint that the threat of hostile takeovers had imposed on power-hungry managers.

The argument of accountability loomed even larger in the third phase of financialization, when public officials endeavored to curb their ever-increasing reliance on debt by facilitating the access of their citizens to commercial credit. Throughout the 1980s, issuing bonds had enabled governments to honor the preference of investors for lower taxes while still attending to the welfare of their constituents. However, by the beginning of the following decade, the deficits they had incurred to compensate for the loss of fiscal revenues became large enough to make creditors anxious about their solvency. Loath to see their public debt downgraded by the markets but still afraid of being voted out of office, representatives of the state devised a new compromise, which amounted to sharing the burden of living on credit with the people under their administration: since appeasing bondholders involved major cuts in the budgets devoted to the weaving of a social safety net, households and individuals who had hitherto depended on public grants, subsidies, or benefits were now actively encouraged to borrow the funds they no longer could apply for or collect. To justify the substitution of commercial loans for social transfers, its promoters argued, in typical neoliberal fashion, that the former would train their

recipients in the discipline of managing their own lives as a business, autonomously and responsibly, whereas the latter could breed only dependency and sloth.

There is thus ample evidence that over the last four decades, neoliberal reforms and their proclaimed objectives have, respectively, tightened and legitimized the grip of finance on the economy. Furthermore, the beneficiaries of financialization and the intellectual heirs of Hayek and Friedman essentially live in harmony. On the one hand, the efforts deployed by neoliberal governments to make labor markets more flexible, tax codes more business friendly, and public sectors leaner can only elicit investors' enthusiasm. On the other hand, the discipline imposed by financial markets and institutions powerfully contributes to the enforcement of the neoliberal agenda: the pursuit of shareholder value prevents corporate managers from giving in to labor unions, the fear of losing the confidence of bondholders deters public officials from spending their way to reelection, and personal indebtedness dissuades private borrowers from supporting political agendas that are likely to drive up interest rates.

Should we then assume that the prescriptions initially formulated by the leading members of the Mont Pelerin Society are perfectly consistent with the empowerment of investors—that financialization was part of the neoliberal plan and is now the condition under which the neoliberal agenda continues to prevail? Friedrich Hayek liked to quote Adam Ferguson, a distinguished representative of the eighteenth-century Scottish Enlightenment, for whom human societies are “the result of human action, but not the execution of any human design.”<sup>32</sup> Ironically enough, Ferguson's pronouncement applies especially well to the societies that have been exposed to the implementation of neoliberal policies. For while governments looking to control inflation and stimulate supply have undeniably shaped our brave new financialized world, the people who have to reside in it hardly fit the type that neoliberal social engineering was intent on fashioning.

To protect liberal polities against “creeping socialism,” Mont Pel-erin luminaries devised measures that were meant to restore the appeal and, more decisively, extend the reach of the entrepreneurial ethos. As they saw it, enticing individuals, regardless of their occupation, to treat their lives as a business would go a long way toward realigning their aspirations with the interests—and the political representatives—of the business community. However, for economic agents who are subjected to the selecting power and continuous ratings of investors, the prevailing concern is not so much the profitability of their endeavors as the cultivation of their creditworthiness. Required to divine and striving to deflect the expectations of potential funders, they are less prone to act and think like entrepreneurs seeking commercial profit than like asset managers speculating on the value of their portfolios. Though hardly indifferent to the revenues that their activities generate, the attractiveness on which their welfare depends derives primarily from the appreciation of their resources—real estate, equity, but also skills and social connections. Neoliberal reforms purported to fashion individuals who would rely on utilitarian calculus—rather than on collective bargaining and vested rights—to maximize their income. By contrast, the subjects of financialized capitalism tend to wager their prosperity on the continuously rated value of the assets—material and immaterial—that make up their capital.

Because market deregulations featured prominently in their program, neoliberal reformers played a decisive role in freeing up finance. In return, the hegemony of the financial markets has largely fulfilled their hopes. Thanks to investors, upholding time-honored institutions such as freedom of association and universal suffrage no longer amounts to putting the socialist fox in charge of the liberal henhouse. Yet in spite of what neoliberalism and financialization provide to and owe each other, it is hardly inconsequential that the latter breeds credit-seeking traders keen on speculative wagers instead of the profit-seeking entrepreneurs driven by rational expectations that

the former sought to fashion. The identification of wage earners with either character type would have doubtless proved equally damaging to their class consciousness and thus to their involvement in social struggles about the distribution of the wealth created by the labor process. However, contrary to their conversion to the entrepreneurial ethos, the subscription of economic agents to the dictates of financial markets and institutions does not deactivate the polarity between employers and employees without fostering another kind of conflict—one that involves the allocation of credit and that pits investors against the “investees” who depend on their largesse.

Faced with what they interpret as the success of the “de-proletarianization” program devised by neoliberal intellectuals and implemented by governments converted to their viewpoint, political parties formerly characterized as progressive are today split into two irreconcilable camps. In the wake of 1990s “third way” reformers such as Bill Clinton, Tony Blair, and Gerhard Schröder, most custodians of the social-democratic creed assume—either with pitiful sighs of resignation or sometimes with the brazen ardor typical of recent converts—that “there is no alternative” to the pursuit of what corporate and new public managements call “competitiveness.” As for unrepentant advocates of a break with capitalism, they paradoxically spend most of their time and energy defending the remaining scraps of the postwar social compact that earlier generations of anticapitalists used to denounce as the most alienating of snares. Caught between the opportunistic capitulation of the former and the nostalgic resistance of the latter, it is no wonder that left-leaning voters find refuge in melancholy, when they do not give up on politics altogether.

At first glance, there is little solace to be found in the fact that the stakes and expectations molded by the ascendancy of finance diverge from what neoliberal social engineering purported to achieve. If anything, the empowerment of investors provides an even more efficient bulwark against “lax” fiscal policies, “rigid” labor markets, and

“sloth-inducing” social benefits than the conversion of wage earners to the entrepreneurial ethos. Yet in contrast with the project of weeding out class warfare by means of turning virtually anyone into a profit-seeking and utility-maximizing entrepreneur, the fashioning of credit-seeking traders prone to speculative wagers on their assets delineates a new divide, predicated on capital valorization, rather than on income distribution.

Now what remains to be shown is that seizing on the conflicts whose main protagonists are no longer the employer and the employee, but the investor and the investee<sup>33</sup> will actually help the Left shake its melancholy. In order to test this claim, the next chapters will successively examine the challenges that stakeholders might issue to companies exclusively concerned with increasing the value of their shares, the initiatives that the governed can take to counter the subservience of their governments to the ratings of bond markets, and the political aspirations and imagination that financialized economies impart to those investees who seek to alter the conditions under which credit is allocated.

## NOTES

1. On the elective affinities between the Left and melancholy, see Enzo Traverso, *Left-Wing Melancholia: Marxism, History, and Memory* (New York: Columbia University Press, 2017). For a call to dispel left-wing melancholia, see Wendy Brown, “Resisting Left Melancholy,” *Boundary 2* 26.3 (1999).

2. Sigmund Freud, “Mourning and Melancholia” (1915), *The Standard Edition of the Complete Psychological Works of Sigmund Freud*, vol. 14 (London: Vintage, 2001). On melancholia, mourning, and politics, see Judith Butler, *The Psychic Life of Power* (Stanford: Stanford University Press, 1997), pp. 167–98; and Butler, *Precarious Life: The Powers of Mourning and Violence* (London: Verso, 2004), pp. 19–39.

3. Joseph A. Schumpeter, *Capitalism, Socialism, and Democracy* (New York: HarperPerennial, 2008). See, in particular, part 2, “Can Capitalism Survive?” as well as the prefaces to the 1947 and 1949 editions and “The March into Socialism,” published as an appendix.

4. Schumpeter echoed the famous thesis of Adolf A. Berle and Gardiner Means in their 1932 book, *The Modern Corporation and Private Property* (New Brunswick: Harcourt, Brace and World, 1991).

5. The trajectory of neoliberal ideas—from the seminal 1938 Walter Lippmann Colloquium, where they were first formulated, to their conquest of the common sense of political leaders, which began at the turn of the 1980s—has been the subject of numerous works, especially in the wake of the 2008 financial crisis. These include, notably, Philip Mirowski and Dieter Plehwe (eds.), *The Road from Mont Pelerin: The Making of the Neoliberal Thought Collective* (Cambridge, MA: Harvard University Press, 2009); Daniel Stedman Jones, *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal Politics* (Princeton: Princeton University Press, 2012); Angus Burgin, *The Great Persuasion: Reinventing Free Markets since the Depression* (Cambridge, MA: Harvard University Press, 2012); Jamie Peck, *Constructions of Neoliberal Reason* (New York: Oxford University Press, 2010); Pierre Dardot and Christian Laval, *La nouvelle raison du monde: Essai sur la société néolibérale* (Paris: Éditions La Découverte, 2009); Serge Audier, *Néolibéralisme(s): Une archéologie intellectuelle* (Paris: Grasset, 2012); Christopher

Payne, *The Consumer, Credit and Neoliberalism: Governing the Modern Economy* (London: Routledge, 2012). Other books have sought to shed light on the remarkable resilience of neoliberal rationality. See, in particular, Colin Crouch, *The Strange Non-Death of Neoliberalism* (Cambridge: Polity, 2012); Philip Mirowski, *Never Let a Serious Crisis Go to Waste: How Neoliberalism Survived the Financial Meltdown* (London: Verso, 2013); Wendy Brown, *Undoing the Demos: Neoliberalism's Stealth Revolution* (New York: Zone Books, 2015); and, drawing on Brown's work, Pierre Dardot and Christian Laval, *Unending Nightmare: How Neoliberalism Undoes Democracy*, trans. Gregory Elliott (London: Verso, 2018).

6. The neoliberal constellation also included Austrian, Swiss, French, and a significant contingent of British members, including Lionel Robbins, Michael Polanyi, and John Jewkes, who played a decisive role in shaping the views of Margaret Thatcher. Among the German ordoliberals, who exerted considerable influence over the governments of Konrad Adenauer (1945–1957) and Ludwig Erhard (1957–1963), major figures included Walter Eucken, Wilhelm Röpke, Alfred Müller-Armack, and Franz Böhm. In addition to Milton Friedman, the most eminent members of the Chicago School's second generation were George Stigler, Aaron Director, and Gary Becker. Either trained at or influenced by Chicago School economists, the founders of the Center for the Study of Public Choice (James Buchanan and Gordon Tullock) and of the Law and Economics Program (also known as the “economic analysis of law”), Ronald Coase and Richard Posner, also counted among the most influential affiliates of the Mont Pelerin Society.

7. Neoliberal path breakers usually presented themselves as unrelenting, yet benign advocates of an integrally liberal agenda. Sometimes, however, they did venture into somewhat riskier distinctions: for instance, when asked how he reconciled his liberal creed with his active support of Augusto Pinochet's regime in Chile, Hayek argued that in order to prevent democracy from paving the road to totalitarian serfdom, liberals were entitled to indulge in a measure of authoritarianism.

8. As early as the 1938 Lippmann Colloquium, “neoliberalism” was the term chosen by the future founding members of the Mont Pelerin Society to qualify



their sensibility. However, Hayek—who liked to call himself an “Old Whig”—and his associates did not identify with it subsequently, with the exception of Milton Friedman, who claimed neoliberalism in one 1951 article (“Neoliberalism and Its Prospects,” *Farmand*, February 17, 1951, pp. 89–93), only to repudiate it in the following years and to pose as guardian of authentic liberalism. In the 1980s, “neoliberal” would reappear on the Left as a polemical concept to characterize both the nature of the regime instituted by Ronald Reagan and Margaret Thatcher’s “conservative revolution” and the shapers of its agenda.

9. Michel Foucault, *The Birth of Biopolitics: Lectures at the Collège de France 1978–1979*, ed. Michel Senellart, trans. Graham Burchell (New York: Palgrave Macmillan, 2008), pp. 129–58.

10. Hayek saw the best shield against lax fiscal policies in the institution of a new type of bicameralism. According to him, what distinguished a liberal society from its socialist antithesis was that the former submitted individuals to common rules but allowed them to define and endeavor to attain their own objectives, whereas the latter required their members to pursue common goals, regardless of their personal preferences. For the constituents of a liberal polity, Hayek added, the preservation of their civil right to conduct their lives according to their own choices was just as paramount as the exercise of their political right to select their representatives. Thus, in order to avert any conflict between these two fundamental dimensions of liberty, the Austrian economist suggested that their respective protections be devolved to two distinct assemblies.

On the one hand, it would be the mission of what he called a “Legislative Assembly” to establish the universal rules that everyone should follow when pursuing his or her privately defined objectives. Applying equally to all and barring anyone, including the agents of the state, from imposing a goal to others would be the essential properties of these rules. On the other hand, what Hayek called the “Governmental Assembly” would be endowed with the power and responsibility to manage and allocate public resources—tax revenues and borrowed funds—but within the regulatory framework defined by the Legislative Assembly. Though composed of elected representatives belonging to rival political parties, the Governmental Assembly would differ from “existing parliamentary

bodies” in one major way: “bound by the rules of just conduct laid down by the Legislative Assembly . . . it could not issue any orders to private citizens which did not follow directly and necessarily from the rules laid down by the latter.” Friedrich Hayek, *Law, Legislation and Liberty*, vol. 3, *The Political Order of a Free People* (Chicago: Chicago University Press, 1979), p. 119.

Committed to contain the illiberal potential of popular sovereignty yet reluctant to promote an authoritarian implementation of what he saw as the liberal rule of law, Hayek argued that the proper way to prevent elected representatives from subjecting their constituents to the mandatory pursuit of common goals was to entrust another democratically elected body with the exclusive task of legislating against such abuse of governmental power. Though less inclined to rely on ideal models than their Austrian colleague, ordoliberal economists were also sympathetic to constitutional protections against democratic overreach. To prevent governments from engaging in what they saw as demagogical policies, they were the main champions of the so-called golden rule either forbidding or limiting fiscal deficits that would later become a key tenet of European institutions.

11. Alongside constitutional amendments prohibiting unbalanced budgets, the German ordoliberals also championed the institution of an “independent” central bank—by which they meant unaccountable to voters and their representatives—that would be constitutionally mandated to make price stability its sole preoccupation. Altogether, the architects of Germany’s “social market economy” argued for both the containment of elected officials’ initiatives, such as taxing and spending, through legislative provisions, and the transfer of some of their traditional prerogatives, such as acting on interest rates, to allegedly apolitical institutions.

While equally determined to keep representative governments on the liberal track, Milton Friedman found the approach of European neoliberals too rigid and cumbersome. For him, if instead of involving themselves in the manipulation of interest rates, central bankers were to carry out a monetary policy exclusively designed to ensure the regular growth of the quantity of money in circulation, the signals that they would send would prove thoroughgoing enough

in terms of preventing the alteration of market prices. At once suspicious of additional constitutional amendments, especially in the case of a “golden rule” that could get in the way of tax cuts, and confident in the capabilities of the Federal Reserve—provided that its priorities were straightened up—the leading figure of the Chicago School believed that his brand of monetarism was not only efficient enough, but also discreet enough, as a policy tool, to deter elected politicians from foregoing fiscal discipline.

12. To determine whether a public administration or a private firm is better suited to supply a service, Hayek argued that the relevant perspective is that of the consumer. And from that standpoint, he then contended, governmental agencies are generally suboptimal providers for two reasons: acting as an unchallengeable monopoly, they have no incentive to heed consumers’ wishes, and, being financed by taxpayers money, they do not have to care about satisfying investors’ demands. Deprived of the proper enticements, the author of *Law, Legislation and Liberty* concluded, the public sector was condemned to inefficiency: consequently, a drastic reduction of its size and scope would not only be in the interest of business, but also of the people that a good government is supposed to serve.

At the same time, Hayek’s position was not that of a libertarian: he believed that a service should be provided by the state when consumers’ choices and investors’ demands were unlikely to lower its cost—or, to put it differently, when providing it to everyone proved cheaper than letting people choose whether to purchase it and when financing it with fiscal revenues proved more realistic than attracting private investments. Yet in his view, these two conditions are met in relatively few cases: among them, he mentioned “obvious instances as the protection against violence, epidemics, or such natural forces as floods or avalanches, but also many of the amenities which make life in modern cities tolerable, most roads (except some long-distance highways where tolls can be charged), the provision of standards of measure, and of many kinds of information ranging from land registers, maps, and statistics to the certification of the quality of some goods or services offered in the market.” Hayek, *Law, Legislation and Liberty*, vol. 3, p. 44.

13. The neoliberal approach to regulation stems from a famous article by Ronald Coase, “The Problem of Social Cost,” *Journal of Law and Economics* 3 (October 1960), pp. 1–44. Coase took aim at what was then the most widely accepted form of state regulatory intervention, the so-called Pigouvian tax, named after the British economist Arthur Pigou, the author of *The Economics of Welfare*. According to Pigou, public authorities should be entitled to alter the spontaneous formation of market prices whenever a contractual transaction between two consenting economic agents proved harmful to a third party, thereby incurring a social cost that would offset the private benefits resulting from the deal.

Pollution was and remains the textbook illustration of what Pigou meant. Resorting to an environmentally noxious technology, the economist claimed back in 1920, may leave the manufacturers and the consumers of a commodity, respectively, satisfied with the ensuing production costs and retail price; yet the damage inflicted on the victims of pollution—and by extension on society at large—justifies the introduction of a tax on the industrial technology responsible for the nuisance. Ostensibly, a Pigouvian tax is meant to compensate the harmed third parties. However, its real purpose is to make the cost of polluting production processes prohibitive, thereby encouraging producers to look for alternative solutions.

For Ronald Coase, however, Pigouvian taxes were wrongheaded as a guiding principle and almost always unnecessary in practice. The author of “The Problem of Social Cost” began by questioning Pigou’s way of assessing and pricing externalities. That the neighbors of a polluting factory are negatively affected, Coase contended, does not necessarily mean that the harm they suffer is greater than what a Pigouvian tax would cause to the various stakeholders of the penalized manufacturer—losses for the owners, higher prices for the consumers, jobs in jeopardy for the workers. Thus, to the extent that, according to Pigou himself, governments are entitled to interfere with the price mechanism only when the social cost of unregulated market relations exceeds the benefits that a governmental intervention would suppress, it would be unwise to introduce a tax before examining its incidence on all the parties that may be

directly or indirectly affected by its implementation. Caution in such matters is all the more important, Coase would then conclude, because, in a majority of instances, it is impossible to establish a comprehensive comparison between the ripple effects of taxing and of overlooking a potential nuisance.

At the same time, the mastermind of the Law and Economics Program did not advocate inaction. Far from simply questioning the merit of Pigouvian taxes in order to promote *laissez-faire*, his purpose was to legitimize a radically new approach whereby, as a rule, private transactions between alleged victims and producers of negative externalities would be deemed preferable to discretionary measures—the latter being envisioned only when a mutually satisfactory outcome could not be found. Faced with the objections that transaction costs are generally too high to make the substitution of private deals for public rulings economically efficient but also that the conflicts over nuisances cannot always be translated into bargains about tradable rights, Coase replied by calling for reforms that would help alleviate these problems—state-sanctioned incentives to generalize contractual resolutions of disputes over externalities and a more expansive definition of private property rights to enlarge the realm of tradable claims.

14. Wilhelm Röpke, *The Social Crisis of Our Time* (Chicago: Chicago University Press, 1950), pp. 218–22.

15. The various members of the Mont Pelerin Society agreed that wage earners who do not own their dwellings tend to be supporters of public housing and rent control—thereby favoring those political candidates who show little regard for fiscal discipline and the price mechanism in the real estate market. In contrast, home-owning workers and employees were seen as primarily concerned with the value of their property and the affordability of their mortgage, making them contemplate price control and high taxes with suspicion.

Of course, neoliberal reformers were hardly the first advocates of widespread home ownership. In the United States, especially, promoting access to real estate property had been a constant trend for Republican as well as Democratic administrations, at least since the time of Calvin Coolidge. His successors Herbert Hoover and Franklin D. Roosevelt proved equally adamant in presenting home

owning as a key element of the American dream. Yet what made the neoliberal promotion of home ownership distinctive was that it primarily aimed at warding off class conflict. As Röpke professed in *The Social Crisis of Our Time* (p. 221), “The proletarian [sic] must in all circumstances be divested of his chief material characteristic, viz., his unpropertied state, he must be given the chance of attaining that degree of relative independence and security . . . which only property can give.” For the German economist, a good society is one where a productive sphere composed of efficiently managed and privately owned enterprises is mirrored by a domestic sphere populated by a myriad of more or less affluent, but also efficiently managed and privately owned, homes.

While equally committed to increase home ownership, Chicago School scholars set out to radicalize the conditions under which it should be made available. Motivated by their suspicion of New Deal institutions, they deplored the price distortion caused by the mandates that Roosevelt and his successors had given to the Federal Housing Administration (FHA) and the Federal National Mortgage Association (FNMA). According to Friedman and his colleagues, allowing public institutions to select and support deserving home owners was a serious mistake: the selection process would end up excluding a sizable portion of potential buyers from the real estate market, while the protection provided to selected mortgage holders would have a negative effect on their sense of personal responsibility. To prevent this twofold flaw, Chicago School economists simply recommended that future governments turn the allocation of mortgages into a fully commercial process: they claimed that letting the private sector set its own criteria of selection would increase the accessibility of loans, whereas preventing the public sector from acting as collateral would improve the accountability of borrowers.

16. According to Röpke, wage earners should be endowed with the ability to “acquire freely disposable funds and become a ‘small capitalist,’ possibly by being given the opportunity of acquiring stocks.” Wilhelm Röpke, *Mass und Mitte* (Zürich: Rentsch, 1950), p. 154, quoted in Werner Bonefeld, “German Neoliberalism and the Idea of a Social Market Economy: Free Economy and the Strong State,” *Journal of Social Sciences* 8.1 (2012), p. 154. Short of making

the stock market accessible to everyone, he contended, social policy needed to enable its beneficiaries to perceive the funds set aside for their pension and health insurance as the building blocks of a personal capital.

In contrast to the spirit of the welfare state, according to which individual contributions to the institutions providing health care and pension benefits were to weave a collective safety net shielded from market competition, ordoliberals held governments' responsibilities in these matters to be twofold: the purpose of public initiatives should be, on the one hand, to empower all able citizens to save enough money for their impending retirement and to purchase an insurance policy from a private health care provider and, on the other hand, to devote a fraction of tax revenues to the segments of the population either too poor or too disabled to handle the anticipation of their old age and the management of their medical costs without the direct assistance of the state.

That people would save exclusively for their own individual health care and pension—instead of contributing to a collective pool redistributed as benefits by a public institution—did not necessarily mean that they managed the “capital” purported to cover their medical costs and secure their livelihood once they retired: indeed, when social services are privatized, insurance companies and pension funds are in charge of investing their clients' money—and also in a position to dictate the terms of the contracts they issue. But then again, ordoliberal reformers did not really intend to turn wage earners into autonomous investors. As Röpke repeated time and again, the real objective of the reforms he advocated was to undo the proletariat, and the means to that end was to dissuade wage earners from identifying as proletarians. He thus argued that if workers and employees were made to trust private providers of social benefits, they would cease to stake the improvement of their safety on welfare programs obtained thanks to the bargaining power of confrontational unions and identify instead with the hopes and fears of the handlers of their capital.

There again, Chicago School economists agreed yet they went further than their German colleagues. Convinced that in all circumstances individuals are at once better off and more likely to behave responsibly if they are entitled to call the resources at their disposal their own, Friedman, Stigler, Becker, and

like-minded scholars advocated the complete privatization of health care and pensions: contrary to ordoliberals, who maintained that the neediest portion of the population requires assistance in the form of tax-collected and state-managed funds, they claimed that help of that sort only serves to thwart the entrepreneurial dispositions of the poor—thereby keeping them endlessly needy—and thus called for the transfer of social security programs to the private sector.

17. Starting in the 1960s, Milton Friedman advocated a complete overhaul of the public housing programs initiated under Roosevelt’s New Deal, advanced by Harry Truman’s 1949 Housing Act, and further developed in the context of Lyndon B. Johnson’s “War on Poverty.” Instead of spending money on the construction of rent-controlled projects in poor neighborhoods, the author of *Capitalism and Freedom* contended, public authorities were to allocate the funds purported to help disadvantaged people to the people themselves. “Surely,” he wrote, “the families being helped would rather have a given sum in cash than in the form of housing.” Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), p. 178. According to Friedman and his followers, the recipients of such funds should use them as they saw fit: instead of being assigned to specific dwellings alongside people facing identical predicaments—and thus being deprived of any incentive to develop their enterprising dispositions—they should be free to look for a place to live of their own choosing with a budget that they managed on their own.

Meanwhile, on the supply side, recipients of vouchers would give the private sector the opportunity to compete for their resources—provided that real estate developers were given the proper tax incentives to make investments in low-income housing profitable for them. The same reasoning led Chicago School economists to call for a sweeping reassessment of the government’s approach to education. Instead of keeping tax money invested in public schools, Friedman famously championed the generalization of tuition vouchers, which, in his view, would both empower parents, regardless of their financial means, to choose the school of their children and oblige public institutions of education to compete with the private sector—though the author of *Capitalism and Freedom* readily



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