

UNIVERSITY OF MANITOBA

The 'Necessary Myth' of Globalization:  
The Washington Consensus and the Limits of Neoliberalism

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**The 'Necessary Myth' of Globalization: The Washington Consensus and the  
Limits of Neoliberalism**

**BY**

**Maurice Alexander**

**A Thesis/Practicum submitted to the Faculty of Graduate Studies of The University of  
Manitoba in partial fulfillment of the requirement of the degree**

**MASTER OF ARTS**

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## Abstract

The process of globalization has come to represent a variety of things to a variety of groups. Both supporters and opponents of globalization have attributed various characteristics of the current global environment to globalization; even while there is no universally accepted definition of the term.

This thesis attempts to demythologize globalization by arguing that it is ideologies and not globalization which determines the characteristics and dynamics of any environment. This will be done by examining the neoliberal inspired Washington Consensus which was imposed on numerous nations in the developing world after the global oils shocks of the 1970s. The Washington Consensus' policies did not produce favourable results in any of the locations in which they were applied. These negatives effects were not due to globalization but rather due to limitations ingrained within neoliberalism.

Examining the theoretical foundations of neoliberalism will isolate the transformative elements ideologies possess from the technical process of globalization. This is not to argue that globalization is not transformative, rather that it is just far less capable of manipulating the social, political and economic dynamics of any environment in the way ideologies can.

To My Family

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I honestly believe that the person who thinks they have accomplished anything in life, entirely of their own doing, is truly blind to their surroundings. This project was definitely a cooperative venture and I am indebted to you all... Thank you.

## Chapter 1

### Introduction

In recent decades, many events and developments including financial collapses in East Asia, currency crises in Latin America, and global stratifications between the upper and lower classes in both developed and developing nations have been attributed to globalization, even while no single definition of the term has been universally accepted. This does not mean to imply that globalization does not exist, but rather that its dynamics, capacities and implications have been greatly exaggerated.

In one respect, globalization has greatly reduced the costs and facilitated the streamlining of various social, political and economic interactions. Conversely, globalization's processes have facilitated the development of many negative spillover effects which have been disproportionately felt by the weaker segments of society.

Because there exists no accepted definition of the phenomenon, and various contrasting interpretations, globalization appears to be unreachable, and by extension uncontrollable. This allows certain actors to blame globalization when negative developments arise, and to credit globalization when they have benefitted from the same global environment.

This thesis will argue that globalization is a myth. What is believed to be globalization is actually neoliberalism, and this can be demonstrated by examining the Washington Consensus. In the international community, globalization has become the necessary myth that has masked the limitations of neoliberalism.

The name Washington Consensus was developed by John Williamson as a way to describe a series of policy prescriptions imposed by the International Monetary Fund,

The World Bank and U.S. Treasury, on numerous financially troubled developing nations in Africa, Eastern Europe and Latin America. These policies did not produce favourable results in any of these locations, and the term Washington Consensus now critically implies an idea which represents neoliberalism, open markets and free trade.

Globalization has been attributed by both supporters and opponents as the source of many global transformations which have been both positive and negative. However, the intent of this thesis is to demonstrate that the neoliberal inspired Washington Consensus is confirmation that it is ideologies and not globalization which determine the social, political and economic dynamics of any environment. While globalization is not an entirely hollow concept, it is far less transformative than many nations, institutions and individuals are willing to acknowledge.

### Globalization

Thomas Friedman has argued that globalization allowed nations and people to reach around the world “farther, faster, deeper and cheaper than ever before.”<sup>1</sup> Veltmeyer and Petras have stated that the term was developed at the 1986 Uruguay Round for the General Agreements on Tariffs and Trade (GATT). They argued that globalization represents “an upsurge in direct investment and liberalization and deregulation in cross-border flows of capital, technology and services, as well as the creation of a global production system, a new global economy.”<sup>2</sup> Conversely, Marianne Marchand viewed globalization as a process of restructuring. This process, she argued, is not confined to the ‘major players’ of the international community as it is often portrayed, but is advanced by everyone and everything. Marchand stated “we are all

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<sup>1</sup> Thomas L. Friedman, *The Lexus and the Olive Tree*, (New York: Farrar, Straus and Giroux, 1999), 7.

<sup>2</sup> Henry Veltmeyer and James Petras, *Globalization and Antiglobalization: Dynamics of Change in the New World Order*, (Aldershot and Burlington: Ashgate Publishing 2004), 12.



involved in the globalization process,”<sup>3</sup> and believed that while it has affected everyone differently, its dimensions are social in nature and not primarily economic.

The respective differences in each definition should not overshadow their shared similarity. Each definition involved what is known as a “time-space compression,”<sup>4</sup> which acknowledged the increased facility interactions, whether social, economic or political, are taking place.

While it is true that the speed and ease of these interactions are unique, the depth of the integration among actors may not be. Others have argued that integration over the last thirty years of globalization is overshadowed by the “belle époque, (~1876-1914)” and to remember that the processes of globalization date back to Ancient Greece.<sup>5</sup>

Globalization’s processes are much more modest than authors such as Veltmeyer and Petras have implied. Globalization does not represent any specific type of economy or any type of political or social arrangement. It is a process through which interactions have been simplified because of major technological advancements. The most complete definition of the term is that of David Held and Anthony McGrew. They stated that globalization

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<sup>3</sup> Marianne Marchand, “Gendered Representations of the ‘Global’: Reading/Writing Globalization” in Richard Stubbs and Geoffrey R.D. Underhill eds. *Political Economy and the Changing Global Order Third Edition*, (Toronto: Oxford University Press, 2006), 262.

<sup>4</sup> James Mittelman, “Globalization and its Critics” in Richard Stubbs and Geoffrey R.D. Underhill eds. *Political Economy and the Changing Global Order Third Edition*, (Toronto: Oxford University Press, 2006).

David Harvey, *A Brief History of Neoliberalism*, (New York: Oxford University Press, 2005).

<sup>5</sup> Paul Hirst and Grahame Thompson “The Future of Globalization” *Journal of the Nordic International Studies Association* Vol.37 (3):247–265, London, Thousand Oaks, New Delhi: Sage Publications, 2002). David Held and Anthony McGrew. *Globalization/Anti-Globalization*, (Cambridge: Cambridge Polity Press, 2002).

Josef Gugler ed., *World Cities Beyond the West: Globalization, Development and Inequality*, (Cambridge: Cambridge University Press, 2004).

[d]enotes the expanding scale, growing magnitude, speeding up and deepening impact of transcontinental flows and patterns of social interaction. It refers to a shift or transformation in the scale of human organization that links distant communities and expands the reach of power relations across the world's regions and continents. But it should not be read as prefiguring the emergence of a harmonious world society or as a universal process of global integration in which there is a growing convergence of cultures and civilizations. For not only does the awareness of growing interconnectedness create new animosities and conflicts, it can fuel reactionary politics and deep-seated xenophobia.<sup>6</sup>

Globalization's processes are not new. The types of interactions described above have always existed. The unique aspect of this current stage of globalization is its depth and sophistication. Because of this level of sophistication, it is easy to assume that various characteristics of the current global environment can be attributed to globalization, even while this is not the case.

Globalization has made it possible for new types of social, political and economic interactions to take place, but it is the dominant structures of any environment that determine the rules and characteristics of these interactions. The environment in question can be viewed as anything as small as a family or rural municipality, to something as large and less tangible as the international community. The structures in question can be nations, markets, individuals or even institutions. Their common characteristic is that they represent a form of authority in their respective environments and have the capacity to establish binding rules. The dynamics of these rules are determined based on the ideological commitments of the structures in question. This is why it is important to understand these commitments in order to understand the origins of any events or developments that have taken place.

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<sup>6</sup> Held and McGrew 2002, 1.

Neoliberalism and the Washington Consensus

While the processes of globalization are not new, the dominant economic paradigm of neoliberalism is. David Harvey stated that neoliberalism

[p]roposes that human well-being can be best advanced by liberating individual entrepreneurial freedoms and skills with an institutional framework characterized by strong private property rights, free markets and free trade. The role of the state is to create and preserve an institutional framework appropriate to such practices. [...] But beyond these tasks the state should not venture. State interventions in markets (once created) must be kept to a bare minimum...<sup>7</sup>

In addition, Aihwa Ong also has a definition of neoliberalism which complements Harvey's in that she acknowledged everything that he stated, but challenged the traditional understanding by describing the ideology as a construct in which ideas are hidden, then manipulated and recast as technical alternatives void of political and ideological content. She added another layer to understanding neoliberalism by viewing it as a proactive restructuring of existing political and economic structures. Ong's definition attributes many transformative elements to this ideology and passively suggests that while certain groups of actors may be entirely conscious of the ideological dimensions to the decisions they make, other actors may not be; specifically those who do not maintain a dominant position in their current environment. Ong stated:

Neoliberalism is often discussed as an economic doctrine with a negative relation to state power, a market ideology that seeks to limit the scope and activity of governing. But neoliberalism can also be conceptualized as a new relationship between government and knowledge through which governing activities are recast as non-political and non-ideological that need technical solutions. Indeed, neoliberalism considered as a technology of government is a profoundly active way of rationalizing governing and self-governing in order to 'optimize'.<sup>8</sup>

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<sup>7</sup> Harvey 2005, 2.

<sup>8</sup> Aihwa Ong, *Neoliberalism as Exception: Mutations in Citizenship and Sovereignty*, (Durham: Duke University Press, 2006), 3.

Ong's analysis demonstrates the transformative capacities of ideologies generally, and neoliberalism specifically. Once these transformative dimensions are understood, it facilitates understanding globalization's limited reach.

Neoliberalism developed as a reaction to the perceived failure of embedded liberalism and Keynesian economics as policy orthodoxy. John Ruggie developed the idea of embedded liberalism as a balance between the obligations that the state had to its citizens, and obligations that a nation may have to an international regime such as the Bretton Woods Agreement, or the GATT.<sup>9</sup> Keynesian economics rests on similar, if not identical foundations. While acknowledging the interdependency of nation states and the role of the market to ensure a healthy economy, governments were encouraged to engage in counter-cyclical spending to promote stable interest rates and full employment. Counter-cyclical spending would allow governments to intervene in the economy with additional resources during the trough of the business cycle, and then to back away from the economy during the recovery and peak periods.<sup>10</sup>

However, the dramatic increase in oil prices in the 1970s was one of many global destabilizing events that led to stagflation (a period of simultaneously rising unemployment and inflation) in the developed world. In the developing world, these events coupled with decreased demand for their exports (because of the recession in the developed world), made it difficult for numerous countries in Latin America and various nations in Asia and Africa to service their loans from international banks. As a result, a

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<sup>9</sup> John Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order" *International Organizations*, Volume 36, Issue 2, *International Regimes* (Spring, 1982), 379-415.

<sup>10</sup> Bill Gerrard and John Hillard eds., *The Philosophy and Economics of J. M. Keynes*, (Aldershot, Vermont: Edward Elgar, 1992).

massive debt crisis ensued. At this time, it was believed that no amount of intervention could correct this issue, and that less, and not more government was required.

Beginning in 1979 with Prime Minister Margaret Thatcher of the United Kingdom, then in the 1980s with United States President Ronald Reagan, neoliberalism was adopted by the developed nations and imposed on the developing nations in the form of the Washington Consensus' Structural Adjustment Programme (SAP).

The neoliberal foundations of the Consensus are the reason it is necessary to examine neoliberalism in greater detail. The neoliberal "shock therapy" in the form of the SAP imposed by the International Monetary Fund (IMF) on the developing world was not successful at producing favourable results. The Consensus was built around the idea of restructuring the Third World Periphery. It had several interrelated goals: democracy (mainly meaning elections), open markets coupled with privatization, down-sizing, and free trade within a larger common market.<sup>11</sup> In exchange for debt relief assistance from the IMF and World Bank, developing nations were required to privatize public sector institutions and open their financial markets. Other conditions added to the loan agreements included: diktats to raise taxes, allowing the prices of essential commodities and basic services to go up, abandoning dirigiste policies, curtailing of public expenditures, relaxing barriers to external capital flows, deregulating the labour markets, cutting public sector jobs, imposing wage restraints and selling off the states' "crown jewels." Some countries had as many as one hundred distinct conditions attached to their loan agreements.<sup>12</sup>

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<sup>11</sup> Howard J. Wiarda, *Cracks in the Consensus: Debating the Democracy Agenda in U.S. Foreign Policy*, (Westport, London: Centre of Strategic and International Studies/Praeger, 1997), 16.

<sup>12</sup> Noreena Hertz, *The Debt Threat: How Debt is Destroying the Developing World*, (New York: Harper Business, 2004) 102.

The results produced from the Washington Consensus were less than favourable. They included: the debt crisis of 1982 and Peso crisis of 1994 in Mexico, hyper-inflation and massive government corruption in the ex-Soviet satellite states transitioning from communism, and the East Asian Financial Crisis in 1997. According to Francis Fukuyama this process failed because

The state sectors of developing countries were in very many cases obstacles to growth and could only be fixed in the long run through economic liberalization. Rather, the problem was that although states needed to be cut back in certain areas, they need to be simultaneously strengthened in others. [...] But the relative emphasis in this period lay very heavily on the reduction of state activity, which could often be confused or deliberately misconstrued as an effort to cut back state capacity across the board. The state building agenda, which was at least as important as the state reducing one, was not given nearly as much thought or emphasis.<sup>13</sup>

One of the major limitations of the approach taken by the Consensus was the opening of the financial markets to allow foreign investors the capacity to invest in these developing markets. This presented two problems: First, foreign investors maintained the freedom to withdraw their funds at any point if they were not comfortable with the level of volatility associated with their investments, or the amount of return they were receiving. These decisions were being made regardless if they coincided with the long term strategies for the development of the developing nations in question or not. Second, domestic investors within these developing markets were then permitted to invest their funds abroad without restrictions. This caused massive capital flight because these investors believed that there were more stable investment opportunities that could be sought globally instead of investing in their own country. Joseph Stiglitz argued that this outcome was predictable and stated that these liberalizing policies were based on flawed

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<sup>13</sup> Francis Fukuyama, *State-Building: Governance and World Order in the 21<sup>st</sup> Century*, (Ithaca and New York: Cornell University Press, 2004), 5.

reasoning; he continued by saying: “It was as if the advisers believed that opening a birdcage would encourage birds to fly into the cage, rather than encouraging birds in the cage to fly out.”<sup>14</sup>

### Goals and Intents of the Thesis

In addition to Held and McGrew, other authors, including James Mittelman and Rupert Taylor,<sup>15</sup> have discussed the reactionary politics that had developed in response to globalization. This negative reaction had materialized itself, among other places, in the form of large protests at every round of negotiations for the World Trade Organization (WTO) or even in the minds of important political leaders who have conceded defeat to globalization. Mittelman quoted Brazil’s former president Fernando Cardoso, who stated that he did not rule Brazil because globalization had swallowed nation states. He also noted that the “increase in inequality and exclusion that globalization fuels is intricate and difficult to counter [...] globalization is inevitable as are its consequences, its disasters, exclusion and social regression.”<sup>16</sup>

While there were negative transformations taking place, blame was being directed towards globalization instead of the dominant economic paradigm of neoliberalism. This paradigm was the real determinant of the dynamics of the international community and was responsible for the failure of the Washington Consensus to produce favourable results. It is the real target of these reactionary politics that have developed in recent decades.

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<sup>14</sup> Joseph Stiglitz, *Making Globalization Work*, (New York and London: W.W. Norton and Company 2006), 38.

<sup>15</sup> Mittelman 2006.

Taylor, Rupert. *Creating a Better World: Interpreting Global Civil Society*, (Bloomfield: Kumarian Press Inc., 2004).

<sup>16</sup> Mittelman 2006, 66.

The contribution of this research is to separate the technical process of globalization from the ideology of neoliberalism. The myth of globalization as a devastating global phenomenon allows blame to be directed towards an uncontrollable, unreachable process. It also detracts from the ideological motivations and political actions of dominant structures who do not wish to regulate the current environment.

Within this context, globalization is understood very narrowly. The idea of the “necessary myth” was evoked by Hirst and Thompson<sup>17</sup> who questioned the existence of globalization. They also argued that it may be an overstatement to assume that the international economy is ungovernable. They pointed to the uneven development of this process, and noted that an increased internationalization has developed among a certain group of dominant actors. David Held had also highlighted many myths associated with the process of globalization. He rejected the ideas that globalization equalled Americanization, or that globalization was responsible for environmental degradation or the rise in corporate power.<sup>18</sup> This thesis will attempt to de-conflate the idea of globalization by highlighting the limitations of the effects that could possibly derive from the process. It will also highlight a major limitation of neoliberalism. It will be demonstrated that this limitation was not only the reason the Washington Consensus did not produce favourable results, but it is also the actual source of the critiques that have developed through these reactionary politics.

Neoliberalism is limited because it does not create the correct types of freedoms for all segments of society. Within neoliberalism, the advancement of any environment

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<sup>17</sup> Paul Hirst and Grahame Thompson, *Globalization in Question: The International Economy and The Possibilities Governance*, (Oxford: Polity Press, 1996).

<sup>18</sup> Held, David, *Global Covenant: The Social Democratic Alternative to the Washington Consensus*, (Cambridge: Cambridge Polity Press, 2004), 3-10.



can theoretically be accomplished by economically liberalizing all peoples, institutions, markets and nations. These actors must be freed to pursue any activities that they wish, without any infringement from government or any other actors unless it is absolutely necessary. These beliefs stemmed from neoliberalism's two main theoretical foundations: neoclassical economics and classical liberalism. While both are useful theoretically, they each are limited in their capacities to accurately depict reality, and this by extension, becomes a limitation of neoliberalism. Theory is meant to be action guiding, but certain aspects within any theory will always diverge from reality. This is because no theory will ever be able to account for the multitude of hypothetical situations which may arise during any given scenario. Theories are useful for describing ideal circumstances under which interactions could take place, but will never be able to be used as a guiding tool in every circumstance.

The foundations of classical liberalism centered on the idea that the individual is the most important unit in society. This meant that government should be limited to providing necessary public collective goods, and should at all costs, not infringe on the liberties of the individual. Any concentrations of power in society were seen as a threat to individual liberty, which is why the rule of law and the separation of government into various institutional structures was a necessary feature of liberal society.

Neoclassical economics is a social science; it does not have the privilege of falsification which is enjoyed in various domains of the natural sciences. It is for this reason that economic models, regardless of their depth and sophistication, will always remain limited in their capacities to reflect reality. In addition to this limitation, neoclassical economics also rests on a number of assumptions which have created an

idealistic interpretation of individual actor behaviour. Among these assumptions was the belief that individuals were constantly maximizing their utilities, from a stable set of preferences, with complete and accurate information. These assumptions led to the erroneous belief that individual actor behaviour could be predicted and plotted into an economic model.

Neoliberalism has combined the inherent individual right to freedom found in classical liberalism, with the belief that all individuals are rational value-maximizers with complete and accurate information found in neoclassical economics. This combination explains why neoliberalism's goals center on liberalizing the economic activities of all actors in society.

However, this thesis will raise the concern that by producing limitless positive freedoms for these liberalized actors, it neglects the fact that the assumptions ingrained in neoclassical economics may not be entirely accurate. This means that there may be spillover consequences derived from the activities of these liberalized actors, in addition to the reality that the existence of these freedoms does not imply that everyone has the opportunity to exercise them.

Dominant structures in a given environment who have adopted neoliberalism maintain significant control over the types of freedoms that are and are not being produced. Regardless of globalization's level of sophistication, these structures are the determinants of how much and to what degree globalization's processes are permitted to affect any environment.

The practical significance of this analysis is its contribution to our understanding of global developments. Conflating the idea of globalization is simple, but it does not

enable proper analysis of the current issues affecting the globe. Understanding the role ideology plays in decision making and how it translates into policy allows not only for a clearer understanding of a given situation, but also facilitates the discovery of alternatives. Few would argue that the Washington Consensus was a failure for many of the nations that were involved. The goal is not to blame the failure on the roll back of the public sector and the integration into the global community, but to critique how it was done.

### *The Necessary Myth*

The Necessary Myth does not argue that globalization itself is not real or transformative. It argues that globalization's transformative capacities are limited in comparison to ideologies. While globalization has made it necessary for nations and institutions to re-evaluate many of their practices; these changes are not nearly as significant as those which are made necessary because of ideological policy prescriptions, as was the case with the Washington Consensus.

Although there is a large body of work that disputes the "unstoppable" nature of globalization,<sup>19</sup> the reality of the situation diverges from the numerous theoretical conceptions. In theory, the process of globalization could be halted, but to limit the development of new transportation and communication technologies is not only an assault on freedom, but on progress itself. This is not to say that these new technologies

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<sup>19</sup> In addition to Hirst and Thompson 1996; Held 2004; Held and McGrew 2002; Stiglitz 2006, this idea was also explored in: Robert Gilpin *Global Political Economy: Understanding the International Economic Order*, (Princeton: Princeton University Press, 2001) and in: Ronnie D. Lipschutz, and James K. Rowe *Globalization, Governmentality and Global Politics: Regulation for the Rest of Us?*, (London and New York: Routledge Taylor and Francis Group, 2005).

cannot or should not be regulated; rather, it is to demonstrate that their development is inevitable.

However, what is not inevitable is the way in which nations, individuals, and institutions interact with these technologies. Globalization is the necessary myth of the global community because it has adopted neoliberalism as policy orthodoxy. While there will always be exceptions to this statement and varying degrees in which numerous nations have adopted neoliberalism's policies, it should not overshadow its paradigmatic dominance.

These dominant structures, which include the IMF, WB and many western developed nations, will not readily accept responsibility for the systemic failures of neoliberalism through the Washington Consensus because it is a demonstration of the limitations of their ideology. In addition, it would also require an acceptance by these actors of their role in facilitating these failures, regardless of how large or small they may have been.

Globalization cannot be touched or adopted; it does not represent any specific policy or decision making mechanism, and provides no guide on how to handle social, political or economic problems that may arise. While it is real, it does not represent the source of any financial collapse or the reason free trade bodies such as the WTO have been perceived to be unjust. All globalization represents is the increased ability for social, political and economic interactions, and the increased capacity for decisions being made in distant locales to have far reaching implications.

### Outline of the Thesis

Chapter One is an introduction of the goals and intents of the thesis and provides an overview of the major concepts including globalization, neoliberalism and the Washington Consensus. It outlines the reasons why it is necessary to separate globalization and neoliberalism and briefly touches upon some of the myths associated with the process. This chapter also serves as a definitional basis for the rest of the thesis. Many themes such as globalization still have no universally agreed upon definition, which is why it was important to identify specifically how this thesis intends to use these terms.

Chapter Two reviews the dominant literature pertaining to the three main themes of the thesis. The first section isolates globalization and discusses all of the major contributions on this subject. It breaks these contributions into groups that have been both supportive and oppositional towards globalization, and how both have contributed to the myth. It also highlights a third group that has focused its attention on trying to understand what globalization is, as opposed to the other two groups, which have focused more on what developments can be attributed to its processes.

The second section discusses neoliberalism in greater detail. It not only describes the transformative capacities of this ideology in theory, but it also provides a few concrete examples. In addition, this section further deconstructs neoliberalism by exploring some of the critiques associated with neoclassical economics and several aspects of classical liberalism. This will lead to the third and final section, which continues the discussion on the Washington Consensus. This section further clarifies the

details of the Consensus as well as introduces some other negative effects that derived from the SAP.

The first section of Chapter Three discusses the notion of ideology as a concept. In order to conceptualize the transformative elements associated with neoliberalism, it is necessary to understand how ideologies are created and imposed. Ideologies have the capacity to alter the dynamics of any environment in a way that globalization cannot. While the information in this section is true of all ideologies and not specific to neoliberalism, it is useful because it then becomes easier to conceptualize globalization more narrowly.

The second section explores neoliberalism's prime limitation: it does not create the correct types of freedoms, and how this lead to the failure of the Washington Consensus to produce favourable results. First, the work of Amartya Sen which has discussed the nature of positive and negative freedoms is explored. Sen's work demonstrates that the mere creation of positive freedoms does not guarantee that individuals are necessarily in an improved scenario. It depends often on their values and their capacity to exercise these freedoms, as well as sufficient negative freedoms for powerful actors who may or may not be aware of the spillover implications of their activities.

The third section of Chapter Three is a brief historical retracing of the developments that led to the adoption of neoliberalism and the policies that became the Washington Consensus. This section is important because it is a concrete example of the arguments from the two sections which preceded it. It demonstrates the omnipresence of globalization's processes from the Inter War period until present date, while highlighting

the ideological transformations of dominant international structures reacting to global developments. It shows the transformative capacities of neoliberal ideology *and* of the embedded liberal policies which preceded it. It also demonstrates the ways in which the ideological commitments of the dominant structures were the determinants of the characteristics of the global environment, and that this was independent of the processes of globalization.

Chapter Four concludes the thesis and summarizes all of the themes addressed. It also discusses future directions, the parameters, and findings of the thesis. In addition, it also discusses the manner in which this research is intended to be used.

While this thesis explores numerous themes in order to defend its argument, it is important to understand the intricate relationship that each maintains with the other. Aihwa Ong critiqued neoliberalism because she believed it depoliticized transformations of political, social and economic significance to make them appear so though they are without ideological dimensions. The goal is to not understand the Washington Consensus as a series of technical prescriptions which did not produce favourable results. Rather, it is to view the ideological dimensions ingrained in these prescriptions which were based on a particular understanding of individual behaviour. Regardless if these understandings produced favourable results or not, the intent is to argue that all significant changes originate from these understandings and not from a technical process such as globalization.

The following chapter is a review of the dominant literature on the three main themes of the thesis. It not only clarifies in greater detail the various perspectives and

interpretations of globalization and neoliberalism; it also makes a separation between three groups of theorists who have and have not conflated the two ideas with each other. The main distinction between the groups is that those who have conflated the two ideas have attributed various events and developments to the existence of globalization; whereas the other group has attempted to understand what globalization is by examining those same events and developments.

In addition, the following chapter will also deconstruct the theoretical basis of neoliberalism and provide a few concrete examples of the ideology's transformative capacities. This will then lead to the final section which is a review of the characteristics and results of the Washington Consensus.



## Chapter 2

### Literature Review

This chapter will review the dominant literature pertaining to the three main themes of the thesis; globalization, neoliberalism and the Washington Consensus. While there is a large body of literature originating from a variety of sources discussing all three themes, it is not possible to include all existing perspectives. This is particularly true of the globalization literature. There is widespread debate not only over what globalization is, but also when it began, who it is affecting, and the manner in which to deal with the developments that have derived from the process.

In addition to reviewing the literature, this chapter will highlight the origins of the “necessary myth” by looking at three groupings of globalization theorists. The first two groups have contributed to the establishment of the globalization myth by examining several characteristics of global society and attributing their existence to globalization. In addition to ignoring the role ideologies play in society, these two groups have empowered and conflated globalization in order to explain various dynamics of society. In contrast, the third group has chosen to look at globalization as the subject which needs to be explained, as opposed as the subject which explains global developments. This group has tried to de-mythologize globalization by analyzing several global developments and trying to discuss their origins. While this third group was able to isolate the political, social and economic factors associated with many global developments, there was still an under emphasis on the role that ideologies have played in shaping society.

The second section of this chapter will deconstruct neoliberalism into its theoretical foundations. The purpose is to highlight that neoliberalism is much more than

an abstract idea about markets and economies. Rather, it is an ideology about individuals and institutions and how various segments of society should interact with each other. This section is meant to demonstrate neoliberalism's transformative capabilities in comparison with globalization. It is also to facilitate understanding the implications of the Washington Consensus' policies which are the subject of the third and final section of the chapter.

Although the Washington Consensus will occupy the smallest portion of this chapter, it is the most important aspect. The Consensus is the realization of neoliberal ideology. It is a representation of the control dominant structures, (whether they are nations, markets, individuals or institutions) can impose on other groups, individuals, or even nations. The problem with neoliberalism is that it does not create the correct types of freedoms, and because it is an ideology, it has a unique relationship with its environment. While this relationship will be examined further in the following chapter, Chapter Two will clarify specifically what these concepts are, in order to better understand what types of developments can be associated with their processes.

### **Globalization Theory**

Because of the variety of interpretations of globalization, it is helpful to categorize each into groups. Angus Cameron and Ronen Palan have used the "wave" thesis to group other globalization theorists. The first wave, entitled "business globalization" was popular among business and management professionals, as well as media persons and politicians. This position relied more on an exaggerated interpretation of global developments as well as large amounts of anecdotal instead of scientific

evidence as support.<sup>20</sup> Theorists in this group such as Kenichi Ohmae evoked ‘the end of the nation state’ and the ‘borderless world,’<sup>21</sup> while Thomas Friedman argued that events such as the end of the Cold War, off-shoring, and the development of the internet, have ‘flattened the world.’<sup>22</sup> Because these interpretations relied on exaggerated and anecdotal evidence, they appear to be limited in their analytic scope and theoretical usefulness. However, Cameron and Palan urged students of globalization to try to understand the premises that underlie this position. This is because globalization is a process fuelled by everyone and everything; if this understanding were adopted by important political, business and media persons, it shaped the way they behaved and reacted to certain developments. Cameron and Palan believed it was important to understand the actions of influential political, business and media persons, because they shaped many of the realities of their own environments through the decisions they made and the information they chose to deliver. Studying business globalization represented an opportunity to understand the origins of major decisions being made *because* of globalization.

Second wave theorists concluded globalization to be a mythology. This wave challenged the development of anything truly global, and argued that what we have seen over the course of history, and more specifically within the last thirty-five to forty years, was closer integration among a small group of dominant actors who still maintained significant policy autonomy.<sup>23</sup> Theorists in this wave noted that in the 1980s and 1990s,

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<sup>20</sup> Angus Cameron and Ronen Palan, *The Imagined Economies of Globalization*, (London, Thousand Oaks and New Delhi: Sage Publications, 2004), 27.

<sup>21</sup> Kenichi Ohmae, *The End of the Nation State: The Rise of Regional Economies*, (New York: Free Press Paperbacks, 1995).

Kenichi Ohmae, *The Borderless World: Power and Strategy in the Interlinked Economy*, (New York: Mckinsey & Company, 1990).

<sup>22</sup> Thomas Friedman, *The World is Flat: A Brief History of the Twenty-first Century*, (New York: Farrar, Straus and Giroux, 2005).

<sup>23</sup> See Hirst and Thompson 1996.

while significant parts of the developing world were having their governance capacities limited by exterior forces in the form of the Washington Consensus, the size of the welfare state and government spending in OECD nations rose or at least stayed constant.<sup>24</sup> Second wave theorists contended that the nation state still remained the dominant centre of cultural and political identity, as well as the primary location of economic significance. It is true that developments in one nation can affect developments in another, but second wave theorists rejected the premise that these developments were in some way more significant than the ones which took place in the domestic economy. Finally, second wave theorists had a hard time making a meaningful distinction between globalization and the liberalizing aspects of neoliberalism. Certain authors including Cameron and Palan, who claimed to be third wave theorists, passively conflated the two concepts, while others such as James Mittelman<sup>25</sup> acknowledged the separation; Mittelman treated the two together and referred to the process as ‘neoliberal globalization.’

Third wave theorists were broadly in agreement with the findings of the second wave, except they tended to be less critical. They normally rejected conflated interpretations of globalization which were usually found in second wave theories. These conflated interpretations assumed that globalization was another form of cultural, political and economic imperialism being propagated by the United States, with the support of other western developed countries.<sup>26</sup> In addition, third wave theorists Hay and

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<sup>24</sup> Guillermo De la Dehesa, *Winners and Losers in Globalization*, (Victoria: Blackwell Publishing, 2006). Robert J. Holton, *Making Globalization*, (New York: Palgrave Macmillan, 2005).

<sup>25</sup> James H. Mittelman, *Whither Globalization? The Vortex of Knowledge and Ideology*, (London and New York: Routledge, 2004).

<sup>26</sup> This idea that globalization is an imperialist process is prevalent in a considerable amount of critical neoliberal and globalization literature. For specific examples see: Eqbal Ahmad, “Knowledge, Place and

Marsh posed a different and more important question: “We ask not what globalization might explain, but how the insertion of subjects into processes might help to explain the phenomena widely identified as globalization. Globalization becomes then for us not so much ‘that doing the explaining’ as ‘that to be explained.’”<sup>27</sup> This position diverged from both first and second wave theorists. It aimed to identify not what global developments could be attributed to globalization, but rather to look at different actors and different events and how they might explain the dynamics of what had come to be called globalization. From this starting point, all of globalization’s processes were seen as multiple, fragmented, and were the subjects of scrutiny. Economic and political decisions were examined the same way, and with the help of the empirical evidence accumulated in the second wave, it allowed third wave theorists to demystify globalization. It was no longer an unreachable phenomenon with major transformative capabilities, it was now a set of processes and channels which represented the transformations of a given society or the global community as a whole. The typical third wave theorist attempted to create a separation between what was known as the process of globalization and other cultural, political and economic developments which may have been related. There was a more concerted attempt to explain what globalization was in order to comprehend the ways in which it had facilitated the creation of certain problems, but may be at the same time a part of the solution.

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Power: A Critique of Globalization.” in Ali Mirsepassi, Amrita Basu and Frederick Weaver eds. *Localizing Knowledge in a Globalizing World: Recasting the Area Studies Debate*. Syracuse: Syracuse University Press, 2003.

Andre C Drainville, *Contesting Globalization: Space and Place in the World Economy*, (London and New York: Routledge, 2004).

Susanne Soederberg, *Global Governance in Question: Empire, Class and the New Common Sense in Managing North-South Relations*, (Winnipeg: Arbeiter Ring Publishing, 2006b).

Veltmeyer 2004 and Dehesa 2006.

<sup>27</sup> Quoted in Cameron and Palan 2004, 28.

Separating each globalization theorist into a respective wave is not a simple task. The wave thesis was useful because it created a timeline for the development and evolution of the various positions which debated globalization. However, this position encountered two problems. First, aspects of any author's interpretation could warrant them a placement in as many as three waves, while many could easily be placed in at least two. In addition, the timeline became useless when authors such as Thomas Friedman, writing fifteen years after Ohmae, appeared to completely disregard the research presented in the previous two waves before completing his analysis. There were few citations in his work and none from recognized scholars on the subject of globalization *or* neoliberalism. For this reason, the following section will instead break the literature into three different categories: The anti-globalizers, the hyper-globalizers and the centrists. This second approach is well articulated in Held and McGrew's "Globalization/Anti-Globalization" and Robert Holton's "Making Globalization". Most anti-globalizers were second wave theorists, the hyper-globalizers primarily first wave theorists, and the centrists were in majority from the third wave of theorists. Breaking the review into these groups allowed for a clearer categorization. For example, in "Making Globalization Work" Joseph Stiglitz made no theoretical distinction between globalization and neoliberalism, and was also critical of the degree in which some claimed the globe may be politically, economically and culturally integrated. However, the bulk of his analysis not only tried to understand what globalization was, but took a balanced approach in discussing alternatives to correct various issues facing the globe. Using the wave approach, it is unclear whether Stiglitz's analysis is in the second or third

wave, but by using the second approach, we can clearly position Stiglitz within the centrist group.

This second approach also allows for a clearer understanding of those theorists who have contributed to the myth of globalization. These individuals were primarily anti and hyper-globalizers. These two groups continued to choose the conflated interpretation of globalization and assumed that there was transformative content associated with its processes. This thesis tries to demonstrate that ideologies have changed over the course of history, and globalization's processes have always existed. Blaming or praising the dynamics of any environment on globalization completely disregards the ideological dimensions which exist in every nation at all times. Globalization does have transformative elements, but they are not as powerful as conflated interpretations from anti and hyper-globalizers have implied.

By approaching the study of globalization in the same way as either hyper or anti-globalizers, it would mean that events such as the Washington Consensus were products of globalization, and not a product of an ideology reacting to specific global developments.

The Centrist position is more consistent with that of the argument of the thesis in that it conceptualized globalization in a more narrow fashion. It acknowledged that globalization cannot be ignored, but its processes represent the characteristics of the global environment, and not the rules of political, social and economic interaction. This position also examines various global developments by discussing globalization's relationship to it, as opposed to using globalization as the explanation of these said developments.

## Anti, Hyper and Centrist Globalizers

### Anti-Globalizers

Anti-globalizers were theorists critical of globalization and more specifically, the international political economy. Many of them viewed globalization as a politically motivated ideological process driven by neoliberalism with the aims of creating an American empire.<sup>28</sup> They viewed the mass outsourcing of manufacturing jobs from the developed to the developing world as a new form of slavery and colonialism. They believed that the transnational corporations based in the first world were exploiting developing countries for their low labour costs, weak labour laws and friendly tax systems. Meanwhile, first world leaders condemned these unsafe and unfair labour practices but did nothing to sanction the multinational corporations (MNCs). Refusing entry of the products into the developed world, or with economic sanctions, were two ways anti-globalizers believed developed nations could slow the exploitation. Anti-globalizers argued that first world nations did not take any proactive steps to curb these problems because they stood to benefit from the arrangement. Anti-globalizers equated open liberal markets and low state regulatory capacities with globalization and argued that this process was advanced by first world nations that benefited from further integration with the developing world. Globalization was viewed as a tool serving as the means to attain the ends of economic, social and cultural domination by the developed world over the developing.

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<sup>28</sup> This includes: Ahmad 1998; Veltmeyer 2004; Drainville 2004; Soederberg 2006b; Dehesa 2006; Dennis Conway and Nik Heynen eds. *Globalization's Contradictions: Geographies of Discipline, Destruction and Transformation*, (New York: Routledge 2006). George Ritzer, *The Globalization of Nothing 2*, (Thousand Islands, London and New Delhi: Pine Forge Press, 2007).



The majority of the anti-globalizers were ideologically Neo-Marxian and attempted to demonstrate that relationships among groups of people both within and among nations were being altered as the process of globalization continues. They described these altered relationships as a new type of class struggle where the few benefited from globalization while the majority were left behind. In sum, their focus was the growing inequality and the ways in which globalization was speeding up the disparities. Anti-globalizers did not believe this to be a set of passive processes which had involuntarily created winners and losers; globalization was viewed amongst these theorists as an active process that could and should be slowed and regulated.

Eqbal Ahmad had gone as far to claim that “Globalization means inequality<sup>29</sup>”; whereas Veltmeyer and Petras’ definition of globalization links it to free trade and foreign direct investment, and points to the 1986 round for the General Agreement on Tariffs and Trade (GATT) as the birth place of the term.<sup>30</sup> Referring specifically to India, Baldev Raj Nayar argued that “as globalization has accelerated it has come to loom large in the perceptions of policy makers [...] and the shrinking of the state has moved to the forefront of their economic agenda, even when not imposed on them.”<sup>31</sup>

Susanne Soederberg contributed to the anti-globalizers by challenging three assumptions which she believed were common in hyper-globalist analysis. First, was the belief that the need for global governance institutions developed based on the “arrival” of globalization. Globalization for Soederberg was not an ahistorical process but one that had always been taking place. She believed this process was man-made and the

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<sup>29</sup> In Mirsepassi, Basu and Weaver eds. 2003, 220.

<sup>30</sup> Veltmeyer 2004, 12.

<sup>31</sup> Baldev Raj Nayar, *Globalization and Nationalism: The Changing Balance in India's Economic Policy 1950-2000*, (New Delhi, Thousand Oaks and London: Sage Publications, 2001), 14.

perceived need for global governance institutions stemmed from the belief that globalization was uncontrollable and cannot be halted because of its unknown origins.

She continued:

What is the link between active decisions to liberalize financial flows and the growth in power of Wall Street? What role have the IMF and the World Bank, or more specifically their neoliberal-inspired structural adjustment policies, played in augmenting their power of financial markets and TNCs in the South? Who made these decisions, and why? Most importantly, who benefits? The inability to explain how globalization came about, aside from the advent of certain technical advances, leads to a fatalistic belief that new occurrences on the world stage, which eventually lead to great transformations of social, political and economic life are not constructed by human beings, but rather simply happen to them.<sup>32</sup>

The second assumption is that the term and basic definitions of globalization assumed equal distribution of the benefits and effects of the process, and assumed no hierarchy of power between global institutions, nation states, NGOs, MNCs and civil society. Soederberg critiqued James Rosenau and the Commission for Global Governance (CGG) for ignoring in their analyses the obvious asymmetrical power relations between the above mentioned groups. Although Soederberg had isolated Rosenau and the CGG for having these beliefs, they are an exception as most hyper-globalist analysis acknowledged the existence of asymmetrical power relations. Acknowledging asymmetry was no longer an issue; rather, the debate now questioned the degree to which each group was capable of extending its influence onto the others, and if they have the right to do so simply because they could.

The final assumption made in the hyper-globalist analysis that Soederberg challenged was what she called the “ethnocentric and paternalistic understanding of development, or what some scholars have critically referred to as developmentalism.”<sup>33</sup>

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<sup>32</sup> Soederberg 2006b, 26.

<sup>33</sup> Ibid., 31.

This premise attempted to export many of the values, traditions and organizational structures to the developing world. This premise was also ahistorical in nature, and according to Soederberg, culturally insensitive. The assumption was, because these practices were effective in the first world, through the channels of globalization these customs could be easily exported and adopted in the developing world. Soederberg called it paternalistic because of the embedded assumption that the mode of development being exported was assumed best. Other anti-globalizers such as Ha-Joon Chang<sup>34</sup> have argued that leaders in the developed world have forgotten that when their countries were at similar stages of development, their governments did whatever was necessary to protect the domestic economy. This included closing itself off in certain areas from global trade in the form of tariffs or restrictions on certain types of imports.

Soederberg's analysis was insightful and her critique of the first assumption has implications for this analysis, and will be examined in the following chapter. However, in the later parts of Soederberg's analysis she drifted away from the general topic of globalization. It is useful to highlight her concerns with globalization because she had concisely articulated the neo-marxian/anti-globalizer position. It started off with critiques about globalization, but quickly turned into problems with neoliberalism (and neoclassical economics), and then shifted to a general critique of capitalism and its tendency to create over-accumulation (surpluses of capital and labour that are left unutilized or underutilized). Her belief was that the crisis prone nature of capitalism was also true of globalization, as globalization was simply a cover for global capitalism with

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<sup>34</sup> Ha-Joon Chang, *Kicking Away the Ladder: Development Strategy in Historical Perspective*, (London: Anthem Press, 2002).

neoliberal ideology.<sup>35</sup> The anti-globalizer position was useful analytically because it used empirical evidence to support its positions and isolated the causes of many of the core issues which will be treated in this thesis. However, it does have serious prescriptive limitations in that it did not attempt to correct issues it claimed were directly associated with the process of globalization. Rather, it tried to undermine the validity of the capitalist economic system, which is a related, but nonetheless a different issue. This was one reason why it was important to make a distinction between globalization and neoliberalism. Many aspects of globalization (understood narrowly as this thesis has defined it) would still exist in a socialist environment, and the mere shift away from capitalism would not necessarily remedy all of the concerns Soederberg and the anti-globalizers have presented.

### Hyper-Globalizers

In most cases, the hyper-globalist approach was supportive of the processes of globalization in that it saw expanding capacities to integrate socially, economically and politically as positive. This position had a cosmopolitan view of global society, and while it acknowledged the unequal distribution of the processes of globalization and the benefits that have derived from liberalized markets, it encouraged further liberalization and integration as a way to reach those who had not profited. The cornerstone of this position centered on the belief in the disappearance of national borders that were becoming increasingly irrelevant. Hyper-globalizers also conflated the idea of globalization with neoliberalism. It is not as though they were treated as one idea, but rather as two ideas that could not be understood independently from one another.

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<sup>35</sup> This position is shared by Soederberg 2006b, Alfredo Saad-Filho and Deborah Johnston eds. *Neoliberalism: A Critical Reader*, (London and Ann Arbor: Pluto Press, 2005).

As with 'business globalization', the hyper-globalizers were made up primarily of business and management professionals along with media persons and politicians. Kenichi Ohmae continues to be the most often cited author from the hyper-globalist perspective. In "The End of the Nation State," Ohmae argued that his four "I s" explained the ways in which nations were becoming less important. His first 'I' was for investment, which he argued was no longer geographically constrained. The importance for Ohmae was not that these funds had been liberated, but that the majority of the funds being traded and invested globally were private dollars. Private agents as the most important investment actors in the global community signalled a definite limitation in the capacities individual nations had for extending their influence.

The second 'I' was for industry globalization and Ohmae contended that:

The strategies of modern multinational corporations are no longer shaped and conditioned by reasons of state but rather, by the desire—and the need—to serve attractive markets wherever they exist and to tap attractive pools of resources wherever they sit. Government-funded subsidies—old fashioned tax breaks for investing in this or that location are becoming—irrelevant as a decision criterion. The Western firms are now moving, say to parts of China and India are there because that is where their future lies, not because the host government has suddenly dangled a carrot in front of their nose.<sup>36</sup>

Many within the anti-globalizers and the centrist group would have numerous contentions with the above statement. Primarily, that almost all of these multinational corporations were opening industries in China and India and other parts of the developing world; delivering products and services, not for those local economies, but to be consumed in the western world. Government subsidies existed not in the formal sense, but by having favourable tax systems, weak labour laws and a low cost for labour, developing nations will always be an attractive place to outsource. This is the new face of the proverbial

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<sup>36</sup> Ohmae 1995, 3.

carrot that Ohmae contended no longer played a factor in decision-making for multinational corporations.

Ohmae's third 'I' was for information technology, which had facilitated the expansion of companies into new markets without creating a physical presence. It had also allowed industries the capacity to hurdle many obstacles to compete in foreign markets. The fourth 'I' was for individual consumers who now had a plethora of choices and opportunities to access products and services at comparably lower prices. Ohmae contended that the urge to "buy Canadian" or to "buy Japanese" no longer played a factor for consumers. They cared more about the price and the dynamics of the product, than where it was made and the host country of the corporation in question. He argued that any company that tried to sell itself domestically based on its national origin was already suffering from efficiency problems and an inability to be competitive. He stated: "wrapping outdated industry in the mantle of national interest is the last refuge of the economically dispossessed. In economic terms, pleading national interest is the declining cottage industry of those who have been bypassed by the global economy."<sup>37</sup>

In Ohmae's words, these four 'I's' demonstrated "why traditional nation states have become unnatural, even impossible, business units in a global economy."<sup>38</sup> Ohmae envisioned the globe in some sort of post-Westphalian system which had left nations no other options but to consolidate their power in the form of regional trading units to maintain some sort of utility and local legitimacy.

While Ohmae's analysis is important, the aspects he described are not associated directly with globalization, but with neoliberalism. Although the aspects of neoliberalism

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<sup>37</sup> Ibid., 62.

<sup>38</sup> Ibid., 5.

will be treated in more detail in this chapter, analyzing one of Ohmae's four "I s" in greater detail will demonstrate the limitations of his conclusions.

His first 'I' referred to freedom of private investment dollars. This has nothing to do with the "arrival" of globalization but was rather a political decision from the 1960s. Controls on capital flows were halted at the end of the World War II, when all of the major global economies were moving to a command and control economy. It was not until the 1960s that the United States removed those controls, and other nations waited longer, including the United Kingdom, which waited until 1979.<sup>39</sup> The freedom of capital is more a result of the policies from individual nations which believed this freedom would allow them to receive additional investment dollars and spur economic development. In addition, the encouragement of individuals by governments to invest their private dollars is based on an assumption that these individuals were rational actors with perfect information. This also assumed that their investment decisions would automatically coincide with the broader needs of society. The following sections will treat these assumptions in more detail, and will demonstrate that these policies were not always good for those who adopted them.

More recently, other hyper-globalizers have continued in the same vein as Ohmae. The New York Times columnist Thomas Friedman is one of the most often cited media persons on the subject of globalization. While insightful and interesting to read, the well travelled Friedman based his arguments on his personal experiences and observations he had made. While no one person's experiences should be dismissed as irrelevant, his work was limited in social scientific depth. It was important still to

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<sup>39</sup> Gilpin 2001

acknowledge his literature as it was often cited and had been read by millions of people around the world.

However, in numerous respects, it is difficult to acknowledge Friedman as a globalization theorist. First, he claimed globalization is not ahistorical, but then claimed that globalization is the international system that had replaced the Cold War. It almost sounded as though Friedman was arguing that the world was not going through this constant process of globalization during the Cold War. He stated that globalization was the event that shaped everything taking place in the world today, and pointed to the East Asian Financial Crisis as an indicator of an integrated financial market which collapsed and sent rippling effects around the world. In the introductory pages titled “The World is Ten Years Old” he stated: “I did not know it at the time—no one did—but these Thai investment houses were the first dominoes in what would prove to be the first global financial crisis of the new era of globalization—the era that followed the Cold War.”<sup>40</sup> However, when he drew parallels between this “new” age of globalization and the “similar” period of globalization between the years 1800-1920, he claimed that it was broken apart by World War I, The Russian Revolution and the Great Depression as if to say globalization could actually be stopped, and was during this time only to be restarted after the end of the Cold War.<sup>41</sup>

In “The World is Flat”, Friedman attempted to build off of his previous discussion of globalization by discussing the ways in which ten major events have flattened the world, followed by three other convergences which have solidified this era of globalization. In this account, Friedman indirectly overlapped on the work of Ohmae as

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<sup>40</sup> Friedman 1999, x.

<sup>41</sup> Ibid., xiv.



all ten “flatteners” fell into one of Ohmae’s four ‘I s’. The real importance of this particular analysis was that it demonstrated, even anecdotally, the existence of grassroots movements in both the developing and developed world being affected by the processes of globalization. Together, Friedman and Ohmae summarized well the hyper-globalist perspective.

### Centrists

The third and final group of globalization theorists are the centrists. The name correctly implied a middle of the road understanding of the processes of globalization between the hyper and anti-globalizers. As earlier stated, this group is composed primarily of third wave theorists that have attempted to demystify globalization by looking closer at what the phenomenon entailed as opposed to what problems could be attributed to its existence. Centrists were the only of all three groups that made a conscious separation between neoliberalism and globalization while acknowledging the relationship between them. Unlike the anti-globalizers, the centrists attached no political motivations to globalization and no ideological dimensions either. They acknowledged that within the current global environment, there had been obvious winners and losers, but the centrists did not blame globalization for the misfortunes of the losers. Centrists instead focused heavily on existing global governance institutions that should be reformed and made more efficient and accountable. They also encouraged the creation of other economic regimes to regulate international financial markets and to curb investor speculation and restore a level of stability. Certain centrists such as Daniel and Erika Drezner have argued that regulation is not the responsibility of the international community, but specifically of the powerful national governments that are, as she states:

“writing the rules that regulate the global economy.”<sup>42</sup> Centrists also agreed in broad terms with the anti-globalizers that the world is not coming together as neatly as Friedman implied. Centrists believed there were certain levels of homogeneity developing globally, but that local developments were still the most important for determining local culture. In opposition to the hyper-globalists, centrists believed that the process of globalization was not unstoppable. Robert Gilpin states: “although the technology leading to increased globalization may be irreversible, national policies that have been responsible for the process of economic globalization have been reversed in the past and could be reversed in the future.”<sup>43</sup> Centrists believe in the capacity to reverse the negative consequences that have derived from this process and an embedded assumption that the obstacles to these changes are political in nature.

As earlier stated, there are centrists such as James Mittelman and Joseph Stiglitz who conflated the idea of neoliberalism with the processes of globalization. Only Mittelman made a theoretical distinction between the two ideas even though he chose the hybrid term of ‘neoliberal globalization’ for his analysis. The two authors belonged in the centrist group because they each attempted to tackle many of the concerns associated with globalization in a balanced fashion. They posed important questions that will further our understanding of globalization once they are answered. Among these questions, Mittelman asked: in the absence of a clear universally accepted definition, are there limitations to the advancement of our knowledge of globalization? Many sub-categories and mini-themes attached themselves to the broader idea of globalization, but how much can be developed if each theorist is pulling in a different direction? He also

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<sup>42</sup> Daniel W. Drezner, *All Politics in Global: Explaining International Regulatory Regimes*, (Princeton and Oxford: Princeton University Press, 2007), 5.

<sup>43</sup> Gilpin 2001, 364.

concluded that most theorists agreed that globalization implied some level of global restructuring. If this were the case, was there a need to restructure the way knowledge was organized for students of globalization? Most important of all, Mittelman acknowledged that anti-globalizers focused heavily on the dimensions and unequal distribution of capitalism, but he still challenged that there was insufficient detail paid to the ethical dimensions of globalization. He asked if these dimensions were explored, whose ethics and values are inscribed in the process of globalization and the criteria used to evaluate it.<sup>44</sup>

Mittelman's questions were found in the analyses of other centrists who aimed to contextualize not only globalization, but the manner in which it was discussed. Centrist analysis should be viewed as a deconstruction of the idea of globalization in order to facilitate further understanding of what is taking place. In the same vein, Held and Held and McGrew contributed to the centrist interpretation by discussing not only the need for different international governance structures, but also by countering many myths about what globalization is not. Among them, they claimed that there has been no simple race to the bottom in welfare and labour standards, that global markets were not punishing welfare states, that there had been no simple collapse of environmental standards, and globalization did not necessarily threaten national cultures.<sup>45</sup> The main point of presenting each of these myths was not that each of these events were or were not taking place, but rather that making a simple cause and effect link between the event in question and globalization was an oversimplification. Another popular myth evoked by many anti-globalizers was that globalization equalled Westernization or Americanization.

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<sup>44</sup> Mittelman 2004, 30-31.

<sup>45</sup> Held 2004, 3-7.

Held and McGrew 2002.

Mittelman argued that there was a strong global US presence and influence, but countered this by stating: “consider reggae music, the croissant, and Japanese animation. How many young Americans, Europeans, and Asians of different nationalities are growing up watching not Bugs Bunny or Mickey Mouse, but Japanese cartoons from Doraemon to Dragon Ball and Crayon Shinchan?”<sup>46</sup>

Together, the anti-globalizers, the hyper-globalizers and the centrists accounted for the vast majority of the globalization theorists. It is difficult to categorize each of these authors and place them into a category and assume the entirety of their analyses may be summarized and so narrowly defined. However, these groups were useful in synthesizing similar thoughts and current interpretations of globalization. Held, Friedman, Mittelman, Soederberg and Ohmae were particularly useful because their arguments synthesized numerous positions in one analysis. With the exception of Friedman, they also pulled from a large pool of existing research to complete their analyses as well.

#### *Mega Cities, Glocalization and Globalization*

In addition to the mainstream interpretations of globalization, there were other smaller bodies of research which focused on the way cities, instead of nations, have developed over the last few decades of globalization. Developed nations such as Canada would have little international presence without cities such as Toronto, Vancouver and Montreal, or similarly the United States without New York, Chicago or Los Angeles. Mega cities analysis within a global context represents another dimension within the

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<sup>46</sup> Mittelman 2004, 7.

globalization literature. Peter Newman and Andy Thornley<sup>47</sup> noted that although there was a variety of debate about what specifically denoted a mega city, it was clear that it was not based on size alone. If that were the case, many cities all over the world, and specifically in China and India, would claim to have many of these mega cities. The generally accepted “core” global cities are New York, London and Tokyo and this was based on function rather than sheer size.<sup>48</sup>

Josef Gugler has focused on mega cities outside of the core and those primarily outside of the developed world. He and a collection of authors<sup>49</sup> argued that there was a western bias in globalization studies. These were similar to the concerns raised by Mittelman, but these authors went even further and examined not only the dynamics of these cities, but also the challenges many of them faced.

Newman and Thornley argued that a common trend within these mega cities was the establishment of an enclave of elites and a large stratification between the rich and the poor. These cities always tended to be much more diverse than rural areas and the rest of the nation as a whole, but not necessarily more integrated between social classes and ethnic groups. These cities were called mini network societies not only because of their relative technological superiority, but because they served as a global hub, not just for the surrounding cities or the nation they were in, but for that region of the globe. Each of these cities must have been able to support a large financial centre and numerous other professional services such as law and accounting firms.

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<sup>47</sup> Peter Newman and Andy Thornley. *Planning World Cities: Globalization and Urban Politics*, (New York: Palgrave Macmillan, 2005).

<sup>48</sup> Josef Gugler ed. *World Cities Beyond the West: Globalization, Development and Inequality*, (Cambridge: Cambridge University Press, 2004).

<sup>49</sup> See Mirsepassi, Basu and Weaver eds. 2003.

Within this area of mega cities research the term glocalization was used to juxtapose the idea of globalization. In the early 1990s, when theorists such as Ohmae were arguing that globalization assumed the development of global homogeneity across cultures, the idea of glocalization was assumed to be the opposite. The theme behind the term was to think global, but act local. It was the opposite idea of a nation delegating tasks to an international regime; it was a national government ceding some of its power to its regional and municipal levels. This process of glocalization developed numerous regional responses to the same larger problems, and instead of promoting the creation of one global identity, it reinforced regional ones. An example of glocalization was the Kyoto protocol which had an aim of combating global warming by reducing greenhouse gas emissions. The protocol was formally rejected in the United States by the federal government, but was still adopted by numerous regional and municipal governments all over the country. This was to combat what these regional authorities felt was a pressing issue that could be combated with a bottom-up, rather than a top-down approach.<sup>50</sup>

Many authors, including many centrists, have refuted the idea that globalization equals any type of uniform idea of global identity. In response, George Ritzer developed the word "Grobalization." In simple terms, grobalization was seen as the direct opposite of glocalization. According to Ritzer grobalization's major concepts are:

The world growing increasingly similar, grobalization minimizes differences around the world [...] Individual groups have relatively little ability to adapt, innovate, and manoeuvre within a grobalized world. [...] Social processes are largely one-directional and deterministic. Grobalization tends to overpower the local and limits its ability to act and react, let alone act back on the grobal. [...] Commodities and the media are seen as largely coercive and its core concepts include, capitalism, Americanization and McDonaldization.<sup>51</sup>

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<sup>50</sup> [www.usmayors.org/climateprotection](http://www.usmayors.org/climateprotection) - 11/13/2007

<sup>51</sup> Ritzer 2007, 21.

The term glocal was used sparingly in globalization discussions, but it did play a large part in the studies of mega cities. These two new terms represented another layer of understanding globalization as they tried to isolate characteristics that were not associated with the process. The terms glocalization and grobalization are an important contribution to this analysis, because they demonstrate another branch of study which has concluded that globalization is not ideological, nor does it create a stable set of outcomes which can directly linked to its processes. Asymmetries within these global cities were results of the particular dynamics within each, and not the fact that they were global hubs for communication.

To conclude the portion of the literature review pertaining to globalization, it should be stated that it is never possible to include every contribution on the subject. The previous discussion has summarized the major positions in the existing dominant literature. By looking at hyper and anti-globalizers first, the limits of the conflated interpretation of globalization were highlighted. While both perspectives contributed to understanding globalization, both were conflated by ideological dimensions. These conflated interpretations added characteristics to globalization which masked the transformative effects ideologies possess. Unlike the first two groups, the centrists understood that even though globalization connects and integrates groups socially, politically and economically, it does not determine the rules and dynamics of those interactions.

The following section will be a review of the literature discussing the second theme of the thesis; neoliberalism and its theoretical components. This section will

isolate the various aspects of neoliberalism which do have transformative capabilities once they are adopted by dominant structures in a given society.

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### **Neoliberalism**

The ideology of neoliberalism, like the process of globalization, has both supporters and opponents. However, although the opinions of both groups are identified here, unlike the previous section on globalization, these groups are not the focus of the section. To understand the ideology of neoliberalism, it must be broken down into its theoretical components which are: classical liberalism and neoclassical economics. Neoliberalism is understood here as a hybrid ideology whose theoretical components create contradictions and methodological gaps. The following section will first present the dominant literature discussing the aspects of neoliberalism, followed by two brief subsections on neoclassical economics and classical liberalism, respectively.

### **Neoliberalism**

Chapter One presented two complete definitions of neoliberalism by David Harvey and Aihwa Ong. Besides presenting the basic principles of neoliberalism, both viewed neoliberalism as more than an idea; they understood it as an ideology and a worldview. This worldview shaped the thoughts and actions of affected individuals by forcing them to re-conceptualize their relationship with the state, the market and their place within civil society. This was not to imply that a shift to or from any other worldview such as communism, socialism, or fascism would not also create equally large destabilizing sentiments and reactions, it is merely to state that such transitions cannot be accomplished seamlessly.



These transitions became deep-rooted in society, and once completed, they limited the spectrum of policy ideas and options available to governments.<sup>52</sup> This did not mean that their actual options had disappeared; rather it meant that political parties, whether they were ideologically from the left, right or centre, presented little variation among their policies. This was true, not only in political debate, but even once these parties had assumed control. Thomas Friedman named these developments and neoliberal policy orthodoxy “the golden straightjacket”. He acknowledged that the straightjacket was a “one-size fits all” model, but contended that it helped keep society under pressure to streamline its economic institutions. He argued that it left people behind faster than ever before, but allowed rapid recovery if the jacket were worn correctly. According to Friedman, two things happened when the jacket was worn: “the economy grows and the politics shrinks.” He contended that the straightjacket produced higher average incomes and reduced political choices to Pepsi or Coke; meaning slight differences, but nothing significant.<sup>53</sup>

Much of the neoliberalism literature took a macroeconomic look at nations that have adopted these liberalizing policies. Indicators such as gross domestic product (GDP), inflation, unemployment, and average annual incomes were often the focus of assessment. However, while these were useful indicators, Colin Leys had examined another dimension of the effects derived from neoliberalism. Leys agreed with Friedman’s basic assumptions, but did not agree that neoliberalism had been beneficial

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<sup>52</sup>This idea is explored in depth by a number of authors, see: Colin Leys, *Market-Driven Politics: Neoliberal Democracy and the Public Interest*, (London and New York: Verso, 2003). Susanne Soederberg, George Menz and Phillip G. Cerny eds. *Internalizing globalization: The rise of neoliberalism and the decline of national varieties of capitalism*, (New York: Palgrave Macmillan, 2005). Helga Leitner, Jamie Peck and Eric S. Sheppard eds. *Contesting Neoliberalism: Urban Frontiers*, (New York and London: The Guilford Press, 2007). Friedman 2005; Cameron and Palan 2004; Ong 2006.

<sup>53</sup> Friedman 1999, 87.

for more than a select few members in the upper classes. In *Market-Driven Politics: Neoliberal Democracy and the Public Interest* Leys went a step further than most authors who critiqued neoliberalism. He went beyond the common complaints found in critical theory which focused on private and foreign ownership in banks and telecommunications, deregulated financial markets and subsidies for large industries. Leys demonstrated how neoliberalism had changed the relationship between the state and civil society. For Leys, a state that had adopted neoliberalism no longer viewed the people of the nation as citizens; they had become consumers. Public services were now products which needed to be bought and consumed. Leys enumerated four aspects of the commodification process which, for him, were necessary to turn any product or service into a commodity

(1) The things they produce, or [...] the services they provide, must be capable of commodification [...] i.e. broken down and 'reconfigured' as discrete units of output that can be produced and packaged in a more or less standardised way. (2) The public must be persuaded to want these products or services as commodities, i.e. to think they have a use-value that justifies the price they have to pay. [Also] a non-commodified alternative must cease to be available. (3) The existing labour force of producers or service providers must be redefined and re-motivated to become wage-workers producing commodities to generate a surplus for shareholders [...] (4) The change to for-profit provision involves substantial investment and some risk, which private capital typically tries to get the state to absorb.<sup>54</sup>

His analysis was important because it traced the shifts that took place in Britain from when Margaret Thatcher and the Conservative Party were in power in 1979, up until early 2000 when Tony Blair's Labour Party was in office. Neoliberalism as policy orthodoxy was established with Margaret Thatcher, and was continued in the United States in 1981 by Ronald Reagan and the Republicans. This was why Leys' choice of timeline and location for his analysis was useful. He isolated two features of the British system: the National Health Service (NHS) and Public Service Television (PST) as

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<sup>54</sup> Leys 2001, 84.

examples of public goods that were transformed into commodities through neoliberalism. These are concrete examples of the real transformative capabilities ideologies, and more specifically, neoliberalism possess. In the case of the NHS, Leys demonstrated that shifting to a formalized multi-tier profit-motivated system had affected not only the type, quality and amount of care patients received; it also caused internal problems within the NHS itself. Leys noted that there were constant shifts from the types of people being hired to run the system. The focus moved away from hiring doctors and nurses that were actually able to provide care, towards nursing and business professionals trained to manage hospital finances with “a focus on the bottom line.”<sup>55</sup>

The PST encountered similar problems as the Thatcher government simultaneously cut financial support while giving financial incentives to corporate interests to set up and provide alternative television options. A concentration of ownership of numerous stations and satellite providers developed, while the PST was criticized by the government for not being efficient or capable of providing the same quality of programming. Financing was cut for the PST even further once it was clear that it no longer commanded as large a percentage of the ratings compared to previous years.<sup>56</sup> However, the complaint from the PST was that it was not in a position to provide better programming because it did not have the funding to do so. Gradually, a shift in consumer tastes occurred, moving away from news reports and documentaries discussing poverty and other important social issues, towards pay-per view and satellite programming which drew attention away from pressing issues that faced the nation.

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<sup>55</sup> Ibid., 168-169.

<sup>56</sup> Ibid., 45.

Leys argued that while these two situations may seem to be confined to Britain, they are an example of a larger phenomenon taking place. As the NHS and the PST shifted priorities, it changed the way citizens were forced to interact with the state and its institutions. For Leys, limiting the capacity of a public service television provider because its programming was less profitable to make way for profitable programming that did not report on any particular social developments, was a way to individualize the average viewer by detaching them from their surrounding realities. In addition, the concentration of ownership of the media outlets limited the amount and diversity of opinions being presented. People who were less aware of their surroundings had less trouble seeing themselves as individual consumers in a competitive marketplace. The state was no longer viewed as a central authority, but rather as a custodian for the market, with the role of facilitating its activities regardless of the consequences. Globalization is not capable of altering the dynamics of a society in the way that Leys described the transformations under neoliberalism. The changes which took place within Britain were independent of globalization's processes. It could be argued that the Thatcher government was trying to make the nation more internationally competitive because of globalization, or that globalization changed the landscape of the TV industry. Even if that holds true, it does not explain where these types of policies originated, or why they were assumed to be the correct decisions to make. However, understanding neoliberalism as a reaction to perceived failure of embedded liberal policies highlights the ideological dimension to the Thatcher government's policy decisions.

These same concerns have been echoed by Leitner; Peck and Sheppard. They examined neoliberalism at the level of the individual rather than the nation. They

believed neoliberalism had changed the traditional idea surrounding individual freedom. It became a need to be freed from bureaucracy, rather than the traditional idea of being freed from want or basic necessities.<sup>57</sup> They argued that neoliberalism was socially constructed; therefore, it is geographically specific. They agreed with many second wave globalization theorists that the world was imploding rather than expanding.<sup>58</sup> They believed neoliberalism and all paradigmatic ideologies to be reactionary, and argued that after the failure of the Washington Consensus, a new reactionary ideology would emerge to replace it.

Anthony Giddens' "The Third Way and its Critics" was designed to present an alternative which left an active role for the state in social areas such as education and research and development (R&D), but with the ultimate goal of giving the less fortunate the tools to participate in the economy as it currently exists. The Third Way suggested the idea to begin regulating corporate activity. However, it had no specific information on how this would be done. Giddens also wanted to distance himself from the type of social democracy that advocated blanket equality in all areas, because he believed that it did not encourage individuals to put the effort into the improvement of their own lives, or take responsibility for their actions.<sup>59</sup> This "alternative" to neoliberalism was hailed by Fernando Cardoso, then President of Brazil, Tony Blair in Britain, and was (according to Giddens) part of the policies which drove two successive Clinton administrations in the United States.<sup>60</sup>

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<sup>57</sup> Leitner, Peck and Sheppard 2007, 4.

<sup>58</sup> Ibid., 40.

<sup>59</sup> Anthony Giddens, *The Third Way and its Critics*, (Malden: Polity Press, 2000), 73.

<sup>60</sup> Ibid., 3.

Giddens' approach does have strong aspects, but it did not fully address the critiques of the authors in his own book. They argued that the Third Way's policies did not diverge far from neoliberal orthodoxy. In the case of Cardoso, Francisco De Oliveira had noted the major reasons Cardoso lost power were due to changes he made in the 1990s. In addition to massive corruption, it included a "whirlwind of deregulation and privatization and restructuring" which dissolved the working class that had been established during the developmentalist era.<sup>61</sup>

Leys demonstrated in his book, that instead of diverging from Thatcher's conservatives in their approaches to the health and communications sector, Tony Blair's Labour Party continued in the exact same vein, in some cases even extending the level of privatization.<sup>62</sup> The Third Way as articulated by Giddens required further depth and specifics if it was going to be a real alternative to neoliberalism. It failed to acknowledge the concerns addressed by Leys concerning the relationships between the state, market and civil society.

Similar to Leys, Cameron and Palan analyzed of the effects of neoliberalism. They focused more specifically on the type of economy neoliberalism had created and its particular dynamics. They broke their analysis into three "imagined economies" and described how each of these economies undermined social democracy by existing outside of mainstream activities.

The first was the "Offshore Economy" which was a set of sovereign spaces with a relative lack of regulation and taxation compared to nation states. Within this economy there were four primary spaces, the offshore financial market, offshore financial centres,

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<sup>61</sup> Francisco De Oliveira, "Lula in the Labyrinth," in *New Left Review* 42, November-December 2006.

<sup>62</sup> Leys 2001, 212, 213.

tax havens, and export processing zones (EPZ).<sup>63</sup> Within each of these spaces were opportunities to take advantage of minimal regulation for financial exchanges and a domain to speculate on currencies and other commodities. The export processing zones were small areas of territory which were normally in close proximity to international transport hubs. These areas normally received special tax arrangements for imported goods, under the assumption that these goods were used as materials for exported manufactured goods.<sup>64</sup> An EPZ exists along the U.S.-Mexico border and its industries were commonly known as maquiladora. Wise, Carlsen and Salazar explained the dynamics of this particular EPZ:

The maquiladora sector is a classic duty-free, export processing zone. Foreign owned companies can set up factories to produce for export and [...] are exempt from income and property taxes, and exports are not subject to value added tax. They do not have to pay duties on the intermediate goods they import for assembly and the government subsidizes many of the costs of doing business, including building infrastructure and offering electricity and water at low prices. The vast majority of maquiladoras are U.S. owned, producing auto parts, light machinery, clothing and other goods, mostly for the U.S. market.<sup>65</sup>

The second economy is the “Private Economy,” actors within this economy acknowledge the traditional basic idea of the nation state but believe that this idea had changed. For Cameron and Palan, the traditional principles of territorial unity, social and multicultural holism and common purpose had been replaced by “privatism.”<sup>66</sup> This economy has created the competition state which prioritized the creation of greater economies of scale and a better atmosphere for business to flourish. This economy not only included the privatization of public goods or services, but referred more specifically

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<sup>63</sup> Cameron and Palan 2004, 91

<sup>64</sup> Ibid., 97.

<sup>65</sup> Timothy A. Wise, Hilda Salazar and Laura Carlsen eds. *Confronting Globalization: Economic Integration and Popular Resistance in Mexico*, (Bloomfield: Kumarian 2003) 174.

<sup>66</sup> Cameron and Palan 2004, 110.

to the advancement by governments of private individual needs before public collective ones.

The third economy is the “Anti-Economy” which was a realm of spatial pockets located in the developing world, the countryside and inner cities. These areas were inhabited by the poor and the unemployed. Cameron and Palan did not believe that these areas were in anyway un-economic. Rather, these areas of anti-economy were inhabited by individuals who had not benefited from the new emerging economies (offshore and private) and could not be accommodated by the new neoliberal economic arrangement.<sup>67</sup>

These analyses explain how neoliberalism may be understood as more than an economic doctrine. It is worldview because it makes assumptions about how nations and those individuals within those nations should interact with each other. State power has not been eroded, it has been pulled back voluntarily in certain areas and re-deployed in others to meet specific goals.<sup>68</sup> Unlike the processes of globalization, adopting neoliberalism was a deliberate and conscious effort. In order to understand neoliberalism’s appeal, it must be made clear that neoliberalism is based on numerous assumptions about the nature of man and developed as a reaction to the perceived failure of embedded liberalism.

Chapter Three will examine the historical lead-up to the adoption of neoliberalism and the rejection of embedded liberalism that preceded it. The next two subsections will briefly discuss the theoretical foundations of neoclassical economics and classical liberalism.

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<sup>67</sup> Ibid., 131.

<sup>68</sup> An idea shared by: Leys 2001; Harvey 2005; Saad-Filho and Johnston 2005; Leitner, Peck, Sheppard 2007; Soederbery, Menz, Cerny 2005



### Neoclassical Economics

This section will present the critical social scientific literature pertaining to neoclassical economics as it relates to neoliberalism.

Economics is a social science which has limitations similar to history, sociology or political science, and does not always have the luxury of falsification. An economic model of a given scenario may be complex, have large amounts of analytic depth, and attempt to reflect reality as much as possible, but its conclusions have always remained theoretical. In each scenario assumptions and estimations must always be made. The prime assumption of modern economics (which is also a major assumption of neoclassical economics) is “all other things being equal”, which assumes that the conclusions of a hypothetical scenario will occur, if and only if all other variables remain static. This assumption has created problems when trying to project the gains and or losses that may be incurred by a nation if a certain policy option is undertaken. While it is important that economists are able to make predictions about the patterns and activities of individual actors in order to theorize possible outcomes, it is equally important that they acknowledge the limitations of these predictions. In a given society, there are too many variables and too many dynamics to coherently include in any economic model, and this is a limitation of neoclassical economics’ prescriptive capabilities.

In “Rationality and Freedom” Amartya Sen argued that economists who have appealed to neoclassical economics were instructed under the rational choice school of thought. When constructing an economic model, theorists had to make assumptions about the types of choices individuals were going to make. In order to do so, economists needed a theory which discussed the criteria under which individuals made all of their

decisions. Rational Choice Theory (RCT), for Sen, was an incomplete model of assessing human behaviour as it was a form of reductionism and oversimplification. Sen quoted Gary Becker who summarized RCT as a set of individuals who always (1) maximized their utility (2) from a stable set of preferences and (3) accumulated an optimal amount of information and other inputs in a variety of markets.”<sup>69</sup> While Sen acknowledged that human behaviour did have numerous regularities, he asked: “But what exactly is utility maximizing behaviour? Is it the same as maximizing behaviour in general, or is it the maximization of the fulfillment of one’s self-interest in particular? That distinction is lost in a large part of modern economics.”<sup>70</sup>

Tony Lawson was also critical of mainstream neoclassical economics. He stated that “the most widely noted cause for concern is that while economic forecasters do not forecast sufficiently accurately, ‘theorists’ fail to provide non-arbitrary explanations of any real economic phenomenon of interest.”<sup>71</sup> The concern Lawson raised was that there was a large gap between economic theory and economic practice. For him, economic theories were unable to account for the multitude of events that occurred in a society. Even when discussing issues around choices individuals made, there was no consistent way of drawing up a formula to account for the variety that existed. Sargent and Wallace were big innovators of the business cycle theory which became a very neoclassical approach to macro economics; they still acknowledged some obstacles economists face regarding large scale modeling. They believed:

The conundrum facing the economist can be put as follows. In order for a model to have normative implications, it must contain some parameters whose values can be

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<sup>69</sup> Amartya Sen, *Rationality and Freedom*, (Cambridge: Belknap Press of Harvard University Press, 2002) 27.

<sup>70</sup> *Ibid.*, 27

<sup>71</sup> Tony Lawson, *Economics and Reality: Economics as a Social Theory*, (London: Routledge 1997) 4-5.

chosen by the policy maker. But if these can be chosen, rational agents will not view them as fixed and will make use of schemes for predicting their values. If the economist models the economy taking these schemes into account, then those parameters become endogenous variables and no longer appear in the reduced form equations for the endogenous variables. If he models the economy without taking schemes into account, he is not imposing rationality [*in Lawson*].<sup>72</sup>

To remedy the above problems, Lawson critiqued that economists simply “make *ad hoc* revisions to estimated parameter values, or introduce ‘add-on’ factors, in order to generate results that are ‘sensible’ or ‘believable.’”<sup>73</sup>

Robert Gilpin named the above problems with neoclassical economics “intellectual limitations.” He, like Sen and Lawson argued that the central assumption of individual rationality to be false, as well as the assumption that an economic actor had at any point complete information while participating in the market.<sup>74</sup> In addition, Gilpin agreed with economists who recognized technological advancement as the most important determinant of long-term economic growth, but found that certain economists based their analysis on the “unrealistic assumption of *certain and complete* information about the nature and consequences of technological innovation”<sup>75</sup> [emphasis in original].

Gilpin, Lawson and Sen had problems with neoclassical economics not only because of the above concerns, but also because it severely neglected the role of the state and assumed rational individuals, perfect markets and complete information. Also, when these assumptions proved to be erroneous, according to Gilpin, economists viewed these errors as an exception rather than inherent limitations of neoclassical methodology.

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<sup>72</sup> Quoted in: Lawson 1997, 9-10.

<sup>73</sup> Ibid., 6

<sup>74</sup> Gilpin 2001, 60.

<sup>75</sup> Ibid., 61.

### Classical Liberalism

As a concept, classical liberalism suffered from the opposite problems as neoclassical economics. Whereas neoclassical economics suffered from methodological limitations because of its rigid theoretical boundaries, classical liberalism can be critiqued because some of its boundaries were ill-defined. The concrete aspects of classical liberalism advocated the idea of a limited government to avoid any forms of absolutism or arbitrariness, a well defined scope of powers and institutions and the rule of law. The purpose of these boundaries was to assure the personal freedom for the individual to pursue any life that they chose, assuming it did not infringe on the personal freedoms of another person. To limit interference and abuse, government was broken into institutions with defined limitations to avoid a concentration of power.<sup>76</sup> Classical liberalism still acknowledged the necessity of government to make decisions such as redistribution of certain social goods and the application and enforcement of laws and regulations.

The boundaries of classical liberalism became ill-defined when the question ‘*how*’ was introduced. How much freedom did the individual deserve, and how much were they allowed to impose themselves on other people and groups before it was considered too much? Furthermore, how tolerant of other groups, communities and perspectives must a classical liberal be? The problem was that the answer to each of these questions depended often on the person being asked and the particulars of the circumstances in question.

E.K. Hunt claimed that classical liberalism rested on four assumptions: (1) that the individual is egotistic and self-centered, (2) the individual is cold and calculating, (3)

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<sup>76</sup> Nancy L. Rosenblum and Robert C. Post. *Civil Society and Government*, (Princeton and Oxford: Princeton University Press, 2001).

essentially inert without proper self-sustaining motivations and (4) atomistic, which for Hunt meant that each person is considered more important than the whole community and any relationships to it.<sup>77</sup> This interpretation of the individual was similar to that described by Milton Friedman.

In 'Capitalism and Freedom' Friedman addressed many of the concerns he believed were associated with the collectivist understanding for the role of government. He believed that the individual was the most important unit in society and that there existed no higher authority, as the state was just a collection of individuals charged with the responsibility of insuring individual rights.<sup>78</sup> Friedman stated that the truly talented in society were always the few in numbers and that governments would never be capable of replicating the variety and diversity of individual action.<sup>79</sup> Lanny Epstein has argued that Friedman's "conception of the optimal polity is individualistic. Democracy is not paramount in his hierarchy of political values; individual human rights are."<sup>80</sup>

Friedman also argued that the government had little role in regulating the market, because the market itself had built in natural protections. He challenged that every market transaction was beneficial assuming that each was bilaterally voluntary and informed.<sup>81</sup> He stated that the existence of competition guaranteed protection from coercion. The fact that any buyer had the option to deal with a multitude of sellers, and all sellers had the option of a multitude of buyers maintained that neither group would be able to exploit the other. This is why Friedman believed that the most fundamental threat

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<sup>77</sup> E. K. Hunt, *Property and Prophets: The Evolution of Economic Institutions and Ideologies*, (Armonk, London: M. E. Sharpe, 2003) 45.

<sup>78</sup> Milton Friedman, *Capitalism and Freedom*, (Chicago, London: The University of Chicago Press, 2002) 1-2.

<sup>79</sup> *Ibid.*, 4.

<sup>80</sup> Lanny Ebenstein, *Milton Friedman: A Biography*, (New York: Palgrave Macmillan, 2007) 201.

<sup>81</sup> *Ibid.*, 13.

to freedom was the power to coerce, be it a monarch, dictator, oligarchy, or even a momentary majority; in Friedman's words: "The preservation of freedom requires the elimination of such concentrations of power to the fullest possible extent and the dispersal and distribution of whatever power cannot be eliminated."<sup>82</sup>

In "The Tragedy of Liberalism" Bert Van Den Brink a self proclaimed liberal claimed that "liberalism cannot make sense of its own ideals without articulating a normative framework that lets some conceptions of a valuable and good life appear to be more valid than others."<sup>83</sup> He challenged classical liberal foundations by arguing that it is not *only* about the freedom to pursue ones conception of a good life. He believed within every society and community no matter how liberal, there was an ideal or preferred way to live. One of these ideals was the belief that individuals had the autonomy to reflect on the adequateness and legitimacy of the norms, principles and procedures which limited their own personal freedom.<sup>84</sup> Although all individuals within a liberal society were deemed to be equal as far as their political and legal rights were concerned, Van Den Brink challenged that it was the well-educated citizen and the wealthy (often one in the same) who stood the greatest chance of being considered reasonable and autonomous.<sup>85</sup>

Following the same path of all of these authors, James Buchanan has argued that classical liberalism does not only rest on the idea of individual freedom, but also the idea that man is perfectible. Buchanan followed some of the same basic premises concerning personal autonomy as Van Den Brink, but instead argued that there were implications

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<sup>82</sup> Friedman 2002, 15.

<sup>83</sup> Bert Van Den Brink, *The Tragedy of Liberalism: An Alternative Defence of a Political Tradition*, (New York: State University of New York Press, 2000) 1.

<sup>84</sup> *Ibid.*, 11.

<sup>85</sup> *Ibid.*, 20.

associated with delegated authority to specific members of society. First, it implied that there was a hierarchy between individuals which also assumed not only the absence of individual equality, but also a right and a wrong way to use individual freedom. He believed that the evolution of ideas over time was progressing towards a “proper” way of life. The idea of personal autonomy within classical liberalism also implied for Buchanan an acceptance that the individual was at a bare minimum capable of efficient self-governance.<sup>86</sup> Buchanan reinforces the classical liberal position by arguing that there are numerous benefits liberal values can contribute to the maintenance a stable society. However, he still acknowledged elements within liberalism which may limit the capacity of certain individuals within liberal society to experience these benefits.

The relationship between classical liberalism and neoclassical economics was most evident in the work of Milton Friedman. The underlying assumptions of classical liberalism as articulated by Friedman created an important relationship with neoclassical economics. It is *because* the individual was seen as free, selfish and protected from coercion that neoclassical economics made assumptions about perfect information and value-maximizing behaviour. Advocates of neoliberalism believed that the classical liberal conceptions of man accurately reflected reality which allowed these beliefs to be transferred towards economic theorization and attempts at projecting individual behaviour. The problem with neoclassical economics was that it incorporated a very pure understanding of the individual based on the traditional classical liberal interpretation. Friedman’s arguments attack the validity of any authority structure which has the power

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<sup>86</sup> James M. Buchanan, *Why I, Too, Am Not a Conservative: The Normative vision of Classical Liberalism*, (Cheltenham and Northampton: Edward Elgar, 2005) 13.

to coerce, but he neglects the fact that these types of relationships are the most common type found in society. It is idealistic and irrational to assume that every (or perhaps any) transaction will be equally beneficial for all parties, and take place with both parties understanding all of the implications of their decisions. This was why Van Den Brink found it necessary to demonstrate that it was possible to still advocate liberalism, while highlighting the importance of acknowledging its limitations for practical application.

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### The Washington Consensus

The Washington Consensus (WC) is an idea representing neoliberalism, open markets and free trade. In David Held's "Global Covenant: The Social Democratic alternative to the Washington Consensus," he defined the WC as:

[A] narrow agenda focused on free trade, capital market liberalization, flexible exchange rates, market determined interest rates, the deregulation of all markets, the transfer of assets from the public to the private sector, the tight focus of public expenditure on well-directed social targets, balanced budgets, tax reform, secure property rights and the protection of intellectual property rights.<sup>87</sup>

The policy prescriptions of WC reflect the dynamics of the imagined economies described by Cameron and Palan and the definition provided by Harvey in the introductory chapter. This is the reason the WC has become synonymous with neoliberalism.

Howard Wiarda has argued that the WC was composed of several interrelated goals: (1) *Democracy* in the developing world and in former Soviet satellite states (as of the early 1990s), (2) *open markets*, meaning privatization and state downsizing and (3) free trade within a larger common market.<sup>88</sup> He contended that although the main ideas

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<sup>87</sup> Held 2004, 55.

<sup>88</sup> Wiarda 1997, 16.



of the WC were already in motion, the collapse of the Soviet Union in the early 1990s was a demonstration to the Americans of the bankruptcy of Marxist-Leninist ideas for managing economies. In addition, the WC assumed the import substitution industrialization (ISI) had never been a beneficial strategy to begin with and had produced negative results. ISI could be grouped together with Keynesianism or John Ruggie's embedded liberalism as it viewed state action as essential for development. Governments erected tariffs, 'fed' domestic industry, encouraged internal demand, while heavy industry and certain utilities were often government owned and regulated.<sup>89</sup> The major critiques of the ISI strategies were that they did not encourage innovation or efficient production because industries were insulated from competition. These strategies were not seen as useful tools to help these nations compete in a transforming global economy.

For Stiglitz, the effects of the WC and neoliberalism specifically, and the processes of globalization more generally, have created a global environment which has disproportionately dispersed the negative effects. Although he did maintain concerns with the specifics of the WC policy prescriptions, his main concern was the manner in which they were applied. In this respect, he echoed the concerns raised by anti-globalizer analysis. He believed there were five concerns associated with the relationship between the developed and the developing world which needed to be addressed. First, the global economy was designed to give the developed countries an increased advantage. Second, the principles of the WC advanced the primacy of material values over others such as the

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<sup>89</sup> See Chapter One in: American Academy of Political and Social Science, Douglas, S. Massey, Magaly Sanchez and Jere R. Behrman eds. *Chronicle of a Myth Foretold: The Washington Consensus in Latin America*, (Thousand Oaks, London and New Delhi: Sage Publications, 2006).

environment or life itself. Third, the WC limited the decision making abilities of the developing world governments and by extension undermined their legitimacy; which Stiglitz argued was an assault on democracy itself. Fourth, the WC was supposed to help all nations benefit economically from its policies. However, according to Stiglitz, the WC created an increase in unemployment, percentages of individuals living in poverty and stratifications between the rich and the poor. Even in the developed world, Stiglitz argued that the rich became richer and the poor became poorer. For Stiglitz, this increasing asymmetry between the rich and poor was often over looked by economists who focused on macroeconomic indicators such as GDP. He demonstrated that focusing on GDP neglected the fact that the WC's policies were creating what he called rich countries with poor people.<sup>90</sup> The fifth concern centered on the resentment being created in other regions of the world about the meanings of the WC. For Stiglitz, the WC should not have meant the Americanization of either economic policy or culture, but believed for the nations that were affected it often did.<sup>91</sup>

The processes of globalization and the neoliberal dimensions of the WC derived regionally specific outcomes. The analyses of Soederberg, Menz and Cerny and Stiglitz were two complete comparative studies which broke down the effects of the WC into regional groupings in order to isolate the specific effects. Massey, Sanchez and Behrman and Holmes focused specifically on the regions of Latin America and the former communist states respectively. East Asia and the ex-communist states have provided two unique experiences with the WC, but still allow for comparisons and patterns to be drawn with other regions that were also affected.

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<sup>90</sup> Stiglitz 2006, 9.

<sup>91</sup> Ibid.

From the 1960s onwards, several nations in East Asia went beyond the average interventionist government to promote specific sectors of the economy and made special investments into the technology sector. They became major producers and exporters of computer chips and hardware components. As Stiglitz stated “the intent was not to ‘outsmart’ the market—picking winners better than the market would do.”<sup>92</sup> East Asian governments realized that the market had negative spillover effects that could cause implications for their production. They needed to accommodate for the fact that major banks were often reluctant to lend funds to infant industries, and had to make sure that there was a demand for the products they were rapidly manufacturing. These investment policies taken on by these governments was an acknowledgment that the market needed to be created and governed, and that private interests were not always prepared to do what was needed to assure the success of these industries.

This process was successful until the 1980s when the East Asian countries succumbed to pressures from the IMF and the U.S. treasury. They opened their markets to the free flow of capital, and all was well until the East Asian Financial Crisis (EAFC) of 1997. According to Stiglitz, the crisis started when currency speculators attacked the Thai Baht which caused a severe decline in its value. Foreign banks began calling in their loans in other neighbouring East Asian economies and these national governments did not have enough money to dump into the system to prop up their currencies. The IMF provided the money necessary to halt the crisis, but under attached conditions that governments cut their spending, increased taxes and raised interest rates. The higher

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<sup>92</sup> Ibid., 32.

interest rates made repayment for borrowers impossible, which led to numerous bankruptcies and the currency crisis turned into a banking crisis.<sup>93</sup>

The ex-communist states were hit harder than other regions that adopted the WC. After the collapse of their Marxist-Leninist system, it was assumed that the neoliberal “shock therapy” was the best way to recovery. Stiglitz noted that “instantaneous price liberalization brought with it predictably, hyperinflation. Prices in the Ukraine at one point increased at the rate of 3,300 percent a year.”<sup>94</sup> Poland and Slovenia managed the transition better because they did not embrace the policies to the same speed or extent as the Ukraine. They were also looking towards the opportunity to join the European Union (EU) which required a sound legal framework, which reassured investors.

Leslie Holmes’ analysis of the effects of corruption in the ex-communist states demonstrated the difficult transition many of these nations had after the initial collapse of the communism, followed by the difficulties caused by rapid liberalization. Holmes’ approach demonstrated both good and bad effects that derived from corruption during this time. Among the benefits was the ability for citizens to receive black market goods illegally imported from outside the country which were not subjected to the hyper-inflated prices. Government officials who often went months without a salary during this time were easily coerced and bribed. Holmes argued that this was a necessary feature of this environment which was riddled by chronically high unemployment. Nevertheless, Holmes believed this corruption existed because, and not in spite of, the neoliberal policy prescriptions taken on by these nations.<sup>95</sup>

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<sup>93</sup> Ibid., 34.

<sup>94</sup> Ibid., 37.

<sup>95</sup> Leslie Holmes, *Rotten States: Corruption, Post-Communism & Neoliberalism*, (Durham & London: Duke University Press, 2006) 278-280.

In addition to highlighting numerous perspectives on globalization including those who have contributed to the necessary myth, Chapter Two has also presented the foundations of neoliberalism and the Washington Consensus. These foundations explain more about the transformations described by Leys and by Cameron and Palan than globalization possibly could.

The following Chapter will explore the idea of ideology. Discussing how ideologies are created and imposed on an environment will support the thesis by further demonstrating neoliberal ideology's transformative capacities compared with globalization. This will be followed by a brief historical retracing of the global developments which preceded neoliberalism, and the subsequent failure of the WC.

## Chapter 3

### Ideology, Freedom and a Brief History

This chapter will be broken into three interrelated sections in order to defend the thesis as presented in Chapter One. To demonstrate the mythology of the conflated interpretation of globalization, two major limitations of neoliberalism will be isolated. The first limitation is one that plagues every ideology; the fact that it is an ideology. It is for this reason that the first section will touch upon the notion of ideology as a concept.

The second section will discuss the notion of freedom, more specifically, positive and negative freedoms. Neoliberal ideology rests on a particular notion of freedom that extends to all facets beyond the individual to the nation, the corporation and the market. This section will discuss the importance of creating certain *types* of positive and negative freedoms as opposed to near limitless positive freedoms more generally. This will highlight that the creation (or absence) of positive and negative freedoms is established through the dominant structures of a given environment; but the dynamics of these freedoms are ultimately determined based on the ideological foundations of the structures in question.

The final section will be an historical retracing of the major developments of the processes of globalization from the end of the Second World War. This will also discuss in more detail the global developments that led to the creation of neoliberalism and the policies that became the Washington Consensus.

The purpose of the last section and the entire chapter is twofold. First, it is to demonstrate that the development of neoliberal ideology and the processes of globalization were interrelated phenomenon, but ultimately produced separately. Second,

the failure of the Washington Consensus to produce favourable results in the developing world was not due to globalization, but rather to neoliberal policy's inability to create the correct types of freedoms. These goals can only be accomplished by isolating the transformative capacities embedded in every ideology and by highlighting the power maintained by dominant structures in their ability to create, extend and deny freedoms to other segments of society.

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### **Ideology**

*It must be difficult, those who have taken authority as truth rather than truth as authority. – Gerald Massey*

*Men's beliefs in the sphere of conduct are part of their conception of themselves and others as human beings; and this conception in its turn, whether conscious or not, is intrinsic to their picture of the world. – Isaiah Berlin*

Any mention of ideology normally brings with it the belief that there is some sort of malicious or conscious effort to distort reality. Proponents of any ideology are assumed to have “tunnel vision”; in that they have difficulty viewing and interpreting information in a balanced and unbiased fashion. For this reason, ideology is always assumed to have deceptive elements, be inherently suspect and unable of accurately depicting reality.

Although it may be difficult, conceptualizing ideology separately from any political dimensions is necessary because the two are rarely established simultaneously. An already existing ideology can be used as a lens to frame and interpret a particular political development, or conversely, an ideology may also be created in response (as was the case with neoliberalism) to a specific political environment. In either instance, the creation of an ideology is the creation of knowledge itself. This knowledge is

conceptualized and re-conceptualized by its proponents in order to make sense of and interpret events that have taken place.

An ideology is viewed here synonymously with the German word ‘Weltanschauung’ or Worldview, which is an overall perspective from which one sees and interprets the world; or as Michael Freeden defined it, as “an all-encompassing view of the world adopted by a given group, *always reflecting the general ideas and thought-systems of an historical epoch* [my emphasis].”<sup>96</sup>

Regardless of the perception any outsiders to an ideology may have, all ideologies have advocated the improvement of a particular environment or political scenario. Even fascism, which manifested itself most brutally in Europe, was based on the belief that there were certain groups in society that were antithetical to the success of the nation and the world as a whole. This by no means justifies the atrocities that took place, but rather demonstrates that the beliefs ingrained in this ideology were conceptualizing a better world, even if the means by which they attempted to attain this ideal were unacceptable by almost all standards.

Another example was Edmund Burke’s conservatism that developed as a reaction to the revolution in France. He believed that the long term security of Europe more generally, and Britain more specifically, rested in its capacity to hold on to traditional modes of governance, including existing forms of political and economic redistribution. Individuals from the classical liberal tradition would refute Burke’s beliefs on the basis that they were elitist and did not sufficiently reward individuals for their labours, or provide adequate opportunities for proper self-determinacy. Nevertheless, based on

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<sup>96</sup> Michael Freeden, *Ideology: A Very Short Introduction*, (Oxford and London: Oxford University Press, 2003), 14.



Burke's interpretation of the world, he believed that the system he was trying to preserve was the best to assure long term stability and prosperity for all classes.<sup>97</sup>

While all ideological positions are well intentioned and not inherently suspect, the issue remains that every ideology has serious prescriptive limitations. Whether these limitations were discovered in hindsight, as was the case with fascism, or if they continue to be debated, as is the case with conservatism, all ideologies suffer from "tunnel vision" to one extent or another. While this is also true of neoliberalism, it is important to determine why this phenomenon arises regardless of which ideology is in question.

The predetermined limitations of any ideology are based on problems associated with: experience, falsification, and authority. These limitations were highlighted by Antoine Destutt de Tracy, Marx/Engels, Karl Manheim, Antonio Gramsci, Louis Althusser, Giovanni Sartori, Clifford Geertz and Michael Freeden.<sup>98</sup> While it is not the intent, nor is there the capacity to begin to fully treat the work of these authors, each is worthy of mention because of their understanding of one or more of the problems with ideology.

According to Freeden, Destutt de Tracy coined the term ideology. He intended to create an independent branch of study that established ideals of thought and action on an empirically verifiable basis, from which both the criticisms of ideas and a science of ideas would emerge.<sup>99</sup> Marx and Engels took this idea in another direction by asserting that there was an independent existence to ideas, thought, and consciousness. They

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<sup>97</sup> Charles W. Parkin, *The Moral Basis of Burke's Political Thought*, (Cambridge:Cambridge University Press), 195.

<sup>98</sup> The work of each of these authors is explored in greater detail in Freeden 2003.

<sup>99</sup> *Ibid.*, 4.

contended that every ideology skewed reality and viewed the material world through an inverted mirror image or “camera obscura.” They believed that this limited the capacity of individuals in society (specifically the lower classes), to fully grasp all of the complexities and dynamics of their surrounding environments, including their dehumanizing social relations under capitalism.<sup>100</sup>

This interpretation by Marx and Engels explains why personal experience is often the starting point for formulating an ideology. Throughout one’s life an individual amasses experiences and learns to interpret information based on the results of previous activities. Certain events create beliefs and disbeliefs which form realities, real or imagined, that the individual uses to guide their behaviour. Sartori defined this belief-disbelief dichotomy as a “political-religious-philosophic-scientific-etcetera system” and believed that ideology represented the political part of this system.<sup>101</sup> Karl Manheim shared Sartori’s belief that the unconscious played an important role in forming ideology. Manheim believed that there was an intimate relationship between the social realities of one’s surroundings and the psychological elements of their belief systems. Unconscious irrationalities which developed in certain individuals could only be unmasked at more advanced stages of social development. It is for this reason that Manheim believed society required an intelligentsia which was a group “whose special task it is to provide an interpretation of the world.”<sup>102</sup>

Manheim argued that experience created conscious and unconscious belief systems. Depending on the social and intellectual development of the individual or group

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<sup>100</sup> Ibid., 5.

<sup>101</sup> Quoted in: Matthew Festenstein and Michael Kenny eds. *Political Ideologies: A Reader and Guide*, (Oxford and New York: Oxford University Press, 2005), 28.

<sup>102</sup> Quoted in Freeden 2003, 14.

in question, these experiences simultaneously shaped and limited what they were capable of interpreting and understanding. Existing social, political, and economic relations were observed and experienced by individuals and taken for granted in that they were assumed to be the “normal” modes of interaction. This then limited the amount and diversity of alternate opinions opposing the dominant ideology.

Manheim’s concern regarding social development is important, because without adequate information and the capacity to interpret it, falsification is not possible. A relatively new and reactionary ideology such as neoliberalism saw limited opposition because it was presented as the opposite of existing policies that appeared to have failed. Also, it was nearly impossible to prove that these untried policies were ineffective. Advocates of neoliberalism did not need to prove that it was effective; they had to demonstrate that embedded liberalism had failed. This was one of the reasons Leitner, Peck, and Sheppard followed in a similar line of reasoning and concluded that neoliberalism would soon be replaced by an ideology reacting to the failures of the Washington Consensus.

The concept of authority ties together both ideas of experience and falsification. Authority takes many forms and is imposed in a variety of fashions. In *Ideology: Restructuring Identities in Contemporary Life*, Gordon Bailey and Noga Gayle argued that although our personal judgements, are based on our personal experiences and may reveal much about our ideologies, it is the power structures in society that develop our points of view. They contended that much of what we know and have learned is beyond

the conscious level and that the construction of ideologies has an intricate relationship with authority.<sup>103</sup>

Ideas and concepts are passed down through teachers and professors, media, and politicians, until they are filtered through the main arteries of society. This fabricated lens frames the context under which experiences take place and the manner in which they are understood. Manheim's concern is echoed by Van Den Brink who argued that even in the most liberal societies, it is the well-educated citizen and the wealthy (authority figures) that make the decisions and decide which views are considered important. Authority represents within any ideology the ability to push ideas through a society, and to both literally and figuratively shape the dynamics of the experiences individuals have.

Once ideas are ingrained in society, change is difficult because the task extends beyond challenging existing authority and power structures. Dominant ideological assumptions are presumed correct and any examples that demonstrate failure of these policies are deemed to be statistical anomalies or an error in application by the individual or group in question. Two examples of this were presented in the previous chapter: one by Robert Gilpin, referring to the limits of neoclassical economics; and the other, Thomas Friedman, defending the validity of the Golden Straitjacket.

The dangers of ideology may appear to be abstract and detached from actual society. However, in the previous chapter, two very concrete examples by Colin Leys and Cameron and Palan demonstrated how neoliberal ideology trickled down from the authority figures in society to the level of the individual. This affected not only the ways in which people were able to interact with the state (NHS in Britain) and what they were

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<sup>103</sup> Gordon Bailey and Noga Gayle, *Ideology: Restructuring Identities in Contemporary Life*, (Peterborough: Broadview Press, 2003).

able to see on television (PST), but also their capacity to participate in society (individuals relegated to the anti-economy).

*Neoliberal Ideology and the Processes of Globalization*

Ideologies themselves have particular dynamics that accompany the ideas of experience, falsification and authority. These “political” dynamics assist in understanding neoliberalism separately from globalization. According to Michael Freeden, ideologies can be isolated because they exhibit a (or many) recurring pattern(s), are held by significant groups, and compete over providing and controlling plans for public policy with the aim of justifying, contesting or changing the social and political arrangements and processes of a given community.<sup>104</sup>

Beyond the broad generalities of the processes of globalization that connects and integrates political, social and economic interactions, there are no omnipresent recurring patterns. The extent and diversity of the effects of globalization are widespread not only among nations, but also within them as well. Newman and Thornley concluded that a person or group’s experience with globalization depended on their proximity to central global cities or regional hubs for commerce and communication. Within larger cities there was a noted stratification between the rich and the poor which can also produce different experiences with globalization.

Although dominant groups may benefit from globalization, globalization does not consist of a doctrine and cannot be “held” by any group. Globalization does not provide plans for controlling public policy, and although its processes are transformative, globalization *is* the change taking place, and not the reason for it.

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<sup>104</sup> Freeden 2003, 32.

Ideologies are complex belief systems composed of conscious and unconscious thoughts. They act as a system that creates maps of social, political and economic reality. As with any map, it is a reflection of what one believes they are seeing, whether accurate or not. This is why Freeden urged caution when appealing to any ideology. If an ideology purports that a previous belief system was flawed or inaccurately depicted reality—that claim dangerously implied the possibility that non-illusory knowledge, free from distortion, was even attainable. This was the essence of the Manheim Paradox that demonstrated the impossibility for an individual to critique any ideology without themselves appealing to an existing ideology.<sup>105</sup>

Whether it is neoliberalism or any other ideology, it is important to understand both the limits of ideologies as whole, and the limits of the particular ideology in question. This must be done before altering a given society by transforming those beliefs into policy.

In the previous chapter, anti-globalizer Susanne Soederberg challenged the origins of globalization and argued that it has a direct link with the great transformations of social, political and economic life. While it is true that globalization, even narrowly defined, has benefited certain groups and power structures more than others. It is also true that as the processes of globalization continued and became more sophisticated, the likelihood is that these same groups will become even more powerful and dominant. However, Soederberg did not address, that while life produces very few coincidences, it is not the global environment that determines the so-called winners and losers; it is the rules and dynamics within the environment that give advantages to certain groups.

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<sup>105</sup> Ibid., 15.

Globalization is not an ideology, it is a process. While certain groups benefit disproportionately from this process, the first questions to ask are not who made these decisions, why, and who benefitted. The question to ask is how this became possible, and the answer is not globalization, but neoliberalism.

Specifically, neoliberalism exacerbates differences among individuals, groups, societies and nations by facilitating the economic activities of those who already have the capacity to exercise authority. This is done by limiting the powers of governing structures, and by extension those with limited authority. These activities overflow into the political, social and cultural domain by transforming relationships among individuals and their interactions with each other and their surroundings. Dominant groups are freed to pursue their activities with limited infringement by governing structures. Individuals then fall into the paradox described above, limiting their capacity to free themselves from the social and economic environment from which they are immersed.

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### Positive and Negative Freedoms

*Men are never in a state of total independence from each other. It is not the condition or our nature: nor is it conceivable how any man can pursue a considerable course of action without its having some effect upon others; or, of course, without it producing some degree of responsibility for his conduct – Edmund Burke<sup>106</sup>*

The concept of freedom becomes a contentious aspect of neoliberalism and by extension globalization. Being free to attain certain goals or participate in certain activities does not necessarily imply that the capacity to do so exists. Because of this, when discussing freedom, attention should not be focused narrowly on level of freedom a person has, but also on their ability to exercise it.

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<sup>106</sup> Emphasis in original, quoted in: Parkin 1956, 16.

Assessing an adequate level of freedom is difficult because it is understood and experienced in a variety of fashions. All individuals in modern liberal society may be viewed as free in that they are generally free to pursue any course of action that they wish. But an individual within that society who does not have the economic capacity or the social tools necessary to take advantage of the benefits of their society, is relatively less free.

Freedom is related to ideology because both are imposed and regulated by authority structures, and both are used to alter experiences and the dynamics of a society. For this reason, when Isaiah Berlin stated that there were important questions regarding freedom that every individual should be ask, such as: “what am I free to do or be” or “who is to say what I am, and what I am not, to be or do,”<sup>107</sup> this could only be answered based on the specific environment in question and that individual’s place within it.

Berlin argued that although the classical English political philosophers were not able to agree on the limits of freedom, they did agree that limitations should exist. An unbounded “natural freedom” would lead to social chaos in which men’s minimum needs would not be met and the needs of the weak would be suppressed by those of the strong. Regardless of their official doctrines, these philosophers believed that all human purposes and activities did not automatically harmonize and there existed a high value on other goals such as justice, happiness, culture, security and varying degrees of equality.<sup>108</sup>

While negative freedoms exist to protect individuals from the consequences of the activities of other individuals, positive freedoms rest on the individual’s ability to be their own master and to make decisions free from encroachment. This is the other dimension

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<sup>107</sup> quoted in Festenstein and Kenny 2005, 107.

<sup>108</sup> Ibid., 108.



to the neoliberal conception of freedom that places individual freedom very high on the hierarchy of rights.

Neoliberalism conceptualizes the individual as rational and as a value-maximizer. For this reason, neoliberalism advocates freedom for individuals in almost all aspects of life. If a person is believed to have all of the information necessary to make informed decisions, is aware of the consequences of these decisions, and is assumed rational, there is no reason for another individual or the state to interfere with their activities. By conceptualizing the individual in this manner, each person develops a natural right to this freedom that should only be encroached in extreme circumstances.

However, these assumptions do not reflect reality. Edmund Burke argued that every action taken by an individual produced a reaction and consequence, some known and many unknown. On the level of the individual, these effects may or may not extend very far; however, on the national scale, the effects have the potential to be widespread. It is this narrow interpretation of individual behaviour and actor rationality that hinders neoliberalism.

In *Rationality and Freedom*, Amartya Sen argued that moving from the welfarist to a freedom-based understanding of market efficiency would produce substantial gains. Sen understood the freedom-based system as promoting both the necessity for negative freedoms and the necessity to promote specific *types* of positive freedoms. This opposes the concept of near limitless freedom advocated by neoliberalism and acknowledges that there are multiple reasons why individuals make decisions. These decisions are not always fully informed, cannot possibly be made with perfect information, and do not

necessarily fall into the category of “rational” even though the individual making this decision would otherwise be considered as such.

Sen defined rationality as: “the discipline of subjecting one’s choices—of actions as well as objectives, values and priorities—to reasoned scrutiny [...] rationality is seen here in much more general terms as the need to subject one’s choices to the demands of reason.”<sup>109</sup> Sen acknowledged that this was a departure from other methods of measuring rationality, such as being in conformity with the intelligent pursuit of self-interest or of being some variant of maximizing behaviour.

Sen believed that it would be dangerous to attempt to provide a complete definition of freedom, but concluded that there are two diverse aspects of freedom: the opportunity and process:

Freedom can be valued for the substantive opportunity it gives to the pursuit of our objectives and goals. In assessing opportunities, attention has to be paid to the actual ability of a person to achieve those things that she has reason to value. In this specific context, the focus is not directly on what the process involved happen to be, but on what the real opportunities of achievement are for the persons involved. This ‘opportunity aspect’ of freedom can be contrasted with another perspective that focuses in particular on the freedom involved in the process itself (for example, whether the person was free to choose herself, whether others intruded or obstructed and so on). This is the ‘process aspect’ of freedom.<sup>110</sup>

The opportunity and process aspects of freedom, allow for a clearer understanding of the limitations of neoliberalism. Predetermined assumptions about how individuals make decisions neglect the fact that there is a multitude of reasons why they are made. Sen argued that individuals may resist the “best” option available because of inadequate information, their personal values or even their values about values.<sup>111</sup> An assessment

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<sup>109</sup> Sen 2002, 4.

<sup>110</sup> Ibid., 10.

<sup>111</sup> Ibid., 14-19.

whether the right type of positive freedoms were being extended must not be based on the existence of the freedom to make the decision, but rather what alternative choices were available and if those choices were actually attainable.

Sen's discussion of the attainability of preferred choices and commodities draws parallels to the work of Joseph Stiglitz presented in the previous chapter. Sen's discussion of values and preferences concerned whether an individual had the freedom (under the limitations of predetermined social norms) to live the life they would like to live. Sen was concerned that well-being was often measured based on commodity holdings as a determinant of progress (implying that more commodities equals better a lifestyle, therefore better quality of life and freedom to pursue more options). This understanding has two faults: first, it does not acknowledge that two individuals with equal commodity holdings may be in diametrically oppositional states as far as their values, preferences and goals are concerned, and second, it did not produce results which can confirm if either individual is in an improved situation based on those commodities.

An example would be to look at multiple generations of the same family. If a man has a wife and two children, with two televisions in their home, but is only financially able to send one child to post-secondary education (although he would like to send both), this is an opportunity limitation of his freedom. If the child that did not receive post-secondary schooling eventually gets married, has two children, two televisions, two cars, and a computer, but still can afford to send only one child to post-secondary education, he is freer than his father was based on commodity holdings, but not in the opportunity aspect to actually attain benefits consistent with his values.

This same dynamic translated to the international community where certain authors have claimed the success of neoliberalism and the Washington Consensus based on macro-economic figures that measured GDP, national exports and inflation. While useful, these indicators did not measure whether the lower or middle classes in these economies were actually freer to attain anything they had reason to value. Were they able to now educate their children, own homes and truly self-determine their role in their societies? Or, were they still relegated to the anti-economy?

The Mexican Maquiladora industries that were created in 1965 and Mexico's introduction to NAFTA in 1994 both produced an explosion of demand for manufactured goods. Between the years 1993-2002 alone, Mexican exports increased by over 300% from 51.9 million dollars US to 160.7 million in 2002.<sup>112</sup> However, migration to the US from Mexico still continues to be an issue because the Mexicans themselves are not receiving the benefits that the increased productivity would imply. Robert Finbow had concluded:

Moreover, in conditions of high unemployment, the link between productivity and wages is lost; Mexican workers have experienced erosion of incomes despite higher productivity since Mexico attracts low wage or part-time jobs [...] Mexico as a whole may benefit from increased employment, but may do so by maintaining poorer wages and benefits than in (the countries of) other NAFTA partners.<sup>113</sup>

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<sup>112</sup> \_\_\_\_\_, "Lesson from NAFTA: The High Cost of Free Trade." (Ottawa: Canadian Centre For Policy Alternatives, 2003), 12.

<sup>113</sup> Robert G. Finbow, "The Limits of Regionalism: NAFTA's Labour Accord," (Aldershot: Ashgate Publishing, 2006), 38-39.

It is for this reason that Chambers and Smith have argued that NAFTA and the Maquiladoras had not weakened the pre-existing incentives and pressures in Mexico to migrate.<sup>114</sup>

The failure of these liberalizing policies to create favourable outcomes was not due to globalization or Mexico's integration in global markets. Rather, it was because the dominant structures did not create any negative freedoms for industries in the EPZs.

Negative freedoms would include forcing industries to guarantee a living wage or safe working conditions, limiting the amount of hours an individual can work in a day, or not allowing industries to use child or prison labour. While many of these negative freedoms appear basic, many of the industries have not provided them. Colin Leys explains:

First, since they are often large organizations [...] they often have larger negotiating resources than do national states, as well as having considerable economic leverage, regularly borrowing and spending more than the states of quite large countries. [...] A country like Britain has a larger GDP than the gross revenues of most TNCs (Transnational Corporations), but the TNCs are free to deploy their resources single-mindedly in pursuit of their limited goals in a way no government can. [...] Second, they are profitable in a large precisely because of their political capacity, especially in their negotiations with host or prospective host governments. They can get regulations altered (or maintained) to their advantages.<sup>115</sup>

Because of their financial and political capacities and their narrow goals, combined with an ideological belief by the national governments that macro-economic indicators were determinants of social progress, negative freedoms were rarely extended to these MNCs.

Through the processes and channels of globalization, these MNCs were able to establish these industries in the developing world and efficiently transport their goods and

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<sup>114</sup> Edward J. Chambers and Peter H. Smith. *NAFTA in the New Millennium*, (Lajolla and Edmonton: US-Mexican Studies/The University of Alberta Press, 2002), 293.

<sup>115</sup> Leys 2001, 16-17.

services. The specifics of the relationship these corporations, investors and individuals in these industries had with their state, was determined based on the types of freedoms that were and were not being created.

Creating and refusing freedoms is one way dominant structures can manipulate experiences in a society and change the way all groups view and understand their surroundings. For those actors that have the capacity to exercise authority and extend influence, all events and environments are seen as malleable. Those who have their freedoms manipulated, often resign to the fact that these dynamics are “normal” within their current environment. They are left with two choices: they can either live with limited freedoms, or they can migrate to another environment where the dominant structures may or may not have created a different scenario.

The nature of ideologies shows why we must separate neoliberalism from globalization. Ideologies are separate from the processes of globalization, and neoliberal ideology specifically privileges authority structures over all other groups in society. This privilege derives from neoliberalism’s belief that all actors are rational, value-maximizers and operate with perfect information. This belief ignores the existence of asymmetrical relationships between actors and the possibility that the activities and interactions of certain groups do not always coincide with the needs of the broader society. In addition, neoliberalism’s inability to acknowledge the divergence between actor behaviour and the spillover consequences derived from that behaviour, ignores the reality that there may be a social cost to be paid for this narrow understanding of freedom.

Neoliberalism and not globalization was responsible for the negative effects produced by the Washington Consensus. An historical retracing of the major political, economic and social transformations from the end of the Second World War to present will demonstrate how this ideology was created as a response to a particular political environment.

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### **A Brief History**

Conway and Heynen argued that globalization would soon weaken the “Western Bias” that confined history to a story of dominant western actors and their interactions with other nations on the periphery. However, while neoliberalism has been imposed in a variety of locations around the world, it is a western construct and this is the reason that this thesis will contribute to this “bias”. As earlier stated, neoliberalism was a product of the UK and the US with the assistance of dominant international structures. The failure of these policies to produce favourable results is important, but the origins of this construct are paramount.

#### *The Second World War*

For the United States and their western European allies, the post-World War II era brought with it a sense of relief and concern. The war was finally over, and with it came a need to establish a coherent economic order to finance the massive reconstruction required in Europe. According to Pauly, the liberalized characteristics of the 21<sup>st</sup> century’s economic system resembled the system which existed before World War I in 1914. This system had limited monetary regulation and carried on after WWI and during

the Interwar period.<sup>116</sup> This lack of regulation was one of the reasons for the terrible financial conditions in the 1920s which eventually contributed to the Great Depression of the 1930s. The Interwar period was characterized by weakened European nations who were not able to provide the economic leadership that the international system was accustomed to, and the US (the only nation capable of assuming the role) was not prepared to be a replacement. These problems were compounded when the US requested repayment of loans that it had made to its allies during the war. Loans which its allies, particularly Great Britain, had been originally led to believe were on the softest of terms, almost bordering on grants.<sup>117</sup> The Depression spread throughout Europe and the developed world and became one of the contributors to the launch of the Second World War.

Although the western allies were occupying both Japan and Germany at the end of the WWII, there was still a need to establish a monetary system to facilitate reconstruction. With the assistance of the Canadians, the US and the European allies created the Bretton Woods system. This system was charged with the control over the circulation of money, by using public institutions to regulate it. The International Monetary Fund (IMF) was created to manage short-term financing and the World Bank (WB) the long-term. They were to provide assistance to help states adjust to their balance of payments and economic development problems.<sup>118</sup> During this time, many

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<sup>116</sup> Louis W. Pauly, "Global Finance and Political Order" in Stubbs, Richard, and Geoffrey R.D. Underhill eds. *Political Economy and the Changing Global Order Third Edition*, (Toronto: Oxford University Press, 2006).

<sup>117</sup> Radhika Desai, "From National Bourgeoisie to Rogues, Failures and Bullies: 21<sup>st</sup> century imperialism and the unravelling of the Third World," (Third World Quarterly, Vol. 25 No 1, pp 169-185, 2004).

<sup>118</sup> Geoffrey R.D. Underhill, "Global Issues in Historical Perspective" in Stubbs, Richard, and Geoffrey R.D. Underhill eds. *Political Economy and the Changing Global Order Third Edition*, (Toronto: Oxford University Press, 2006).



governments nationalized major segments of their market to bail out bankrupted industries, but also as a way of maintaining economic and political stability.<sup>119</sup>

When it became apparent that the US was not willing to finance the IMF and WB to the extent necessary for proper reconstruction, the Europeans tried to establish a European Payments Union. This initiative lasted from 1950-1958 and remained a poor substitute.<sup>120</sup>

Through the channels of globalization these nations were integrated. Although the US did not want to assume the role of international creditor, the Americans realized that because of their links to the global community, it would be in their best interest to do so. The US was concerned that if the European redevelopment project failed, the potential for another costly war, and global economic instability was high.

The Marshall Plan was then created by the Americans as a way to take the risk out of their investment in Europe. The US would provide the \$18 billion dollars necessary for reconstruction, and the goods and services would come from the American market. Recipients from this plan were also banned from borrowing from the IMF.

The Bretton Woods fixed exchange rate system was backed by a guarantee from the Americans that the US dollar could be exchanged for gold at \$35 an ounce. Other currencies were viewed as fixed but flexible. Meaning they could be adjusted if certain global developments dictated the need for a revaluation, but would otherwise remain constant relative to the US dollar. This system worked well until the US became further entangled in the arms race of the Cold War. In addition, the Vietnam War which was much longer and far more costly than anyone imagined compounded this problem. At

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<sup>119</sup> Pauly 2006.

<sup>120</sup> Underhill 2006, 107.

this time, it was clear there were more US dollars in the international system than gold to be exchanged for it. However, because the idea of a devalued US currency could potentially lead to a US troop withdrawal from key strategic locations, American allies decided to hold on to the over-valued dollars.

In the late 1960s the US government decided to remove controls on capital flows, and on August 15, 1971 the Nixon Administration decided to force a devaluation of the dollar. The Bretton Woods system which had long become unsustainable was gone. The Nixon Administration announced not only would they no longer exchange dollars for gold, but they would force other nations to appreciate their currencies by imposing a 10% surcharge on all imports into the American economy.<sup>121</sup> These changes would be the first of many which would eventually have far reaching implications.

This particular period demonstrated two transitions in policy by the dominant nations and authority structures in the international system. The post-World War II era was characterized by the embedded liberal policies because they reflected the Worldview of the authority structures of that time. Embedded liberal policies were necessary because of the experiences felt during the Interwar period, which contributed to the launch of the Second World War. Those experiences shaped how the post-World War II era was conceptualized, and ultimately what decisions were made.

The Bretton Woods system could not function unless the US agreed to take part. Although the Americans had difficult decisions to make, they were not prepared to participate unless the rules of interaction were in their favour. This demonstrates how the US shaped the European experience by limiting and extending freedoms. First, this was

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<sup>121</sup> Gilpin 2001.

done by not producing sufficient funds for reconstruction, and forcing the Europeans to attempt their own system. Second, the US created the Marshall Plan to meet the Europeans' needs, but added process and opportunity limitations on their freedoms. European reconstruction was possible, but only with US products and services, and they were not able to seek other financing.

Other limitations were extended when various nations limited capital flows and took control of numerous industries as a way of ensuring stability. These policies were far different from the neoliberal assumptions which state that all industry and capital flows would automatically converge with the immediate needs of the nation. With the experiences of the Interwar period, not even the US was prepared to leave economic reconstruction to the whims of the market.

The channels and processes of globalization were clear during this time period and were the reason the US was obligated to aid the devastated European allies. However, even with globalization, the US still had the capacity to make the decision to move to a command and control economy, and a command and control relationship with those who received aid. Nothing obligated the US to liberalize capital flows or to encourage small government, which is one of the reasons why they did not until the late 1960s. The rules and dynamics of the environment were determined by those who had the capacity to produce freedoms and extend their authority, and during this time period, it was the US.

#### *From Oil Shocks to the Washington Consensus*

Floating currencies and the formal abandonment of the Bretton Woods system gave way to what Gilpin called a "non-system" specifically "because there were no

generally recognized rules to guide the flexible rates or any other decisions on international monetary affairs.”<sup>122</sup> While exchange rates were flexible and appeared to produce more autonomy for national governments, each nation was still highly integrated through the financial markets and their macroeconomic policies. International financial flows became a determinant of short-term exchange rates, which only served to increase their volatility. By the end of the 1970s financial flows dwarfed trade flows by a ratio of about 25:1.<sup>123</sup>

In 1973, Arab oil-producing nations sharply raised the price of oil which caused a severe balance of payments deficit in the developing world. Stagflation (simultaneously rising inflation and unemployment) hit the developed world which caused a global recession. Developing nations from Africa to Latin America soon found themselves with unserviceable debt from large international banks. Repayment was difficult because the global recession had also curbed demand for their exports.

The debt crisis in the developing world signalled to the developed world the perceived failure of the ISI strategies. Normally these developing nations would borrow from large international banks to avoid indebting themselves to large MNCs or the conditionality of the IMF and WB.<sup>124</sup> However, after the Mexican financial crisis of 1982, reliance on loans from large banks for developing nations had become impossible. The eventual collapse of the Soviet empire a few years later only reinforced these perceptions. In 1985 the US government introduced structural adjustment policies (sometimes referred to as structural adjustment programme or SAP) to aid these struggling nations. The belief was that the persistent debt problems in the developing

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<sup>122</sup> Ibid., 239.

<sup>123</sup> Ibid., 240.

<sup>124</sup> Ibid., 313.

world caused by fiscal imbalance had deep structural roots. These nations required a readjustment of their macro-economic policies towards export-led growth, reduction of the state's role in the economy and public sector reforms. This belief was further compounded by the erroneous perception that the East Asian economies from the 1960s and 1970s were success stories to be hailed as good examples of sound neoliberal policy.

Conversely, the policies of the East Asian economies from the 1960s and 1970s were in stark contrast to the neoliberal SAP programs being advocated by the US, United Kingdom, IMF and WB. Neoliberals believed that these East Asian economies were success stories because they performed market conforming economic strategies, and had allowed the markets to determine their path of development. Although these economies did open themselves to the global market, there were a few key differences between what went on in East Asia and what the SAP prescribed. First, East Asian governments created numerous incentives to encourage private investment in specific strategic industries. They also played an important role in creating an entrepreneurial class, identified critical economic areas for development, and exposed priority sectors to international competition that forced them to become efficient.<sup>125</sup> These governments believed in the utility of the market, but also believed that there was a strategic element that must be acknowledged and that individuals and industries required support to be successful.

In Chapter One, Francis Fukuyama was cited as a critique of the SAP because he believed that while certain adjustments were needed, including a role back of the state apparatus, other dimensions of the state needed to be strengthened simultaneously. By not allowing these key institutions to be developed and contribute to the state building

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<sup>125</sup> Ibid., 317.

process, the Washington Consensus managed to worsen an already poor situation. Fukuyama believed that this process of “state destruction” happened in spite the best intentions by the donor nations and the international institutions imposing these policies.<sup>126</sup>

*Results of the Consensus and the Necessary Myth*

The SAP was successful in its objectives to open these developing markets to trade and further integrate themselves into the global economy. It was not successful in helping these nations develop stable policies which would allow them to pay down their debts and rebuild their economies. One reason was that the Consensus was a one-size prescription that was universally applied. It was entirely economic in nature and did not allow for the opportunity to tackle issues which were specific to their individual nations. The issue of corruption also continued to be a problem, because creating the types of infrastructure and public institutions which limited illegal activities were not objectives of the SAP. “Structural” in this sense was very narrowly defined because it did not attempt to adjust all of the damaged pillars of the societies it was supposed to be assisting.

Globalization was responsible for this situation in as much as it was the reason these policies became necessary. The oil shocks from the 1970s were significant events because these nations were all integrated. While developed nations may have a recession or suffer economically, it is nothing compared to a recession in the developing world. Smaller nations will never be able to absorb the shocks created by volatile currency exchange rates or rapid fluctuations in oil prices in the same way that a powerful developed nation would.

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<sup>126</sup> Fukuyama 2004, 39.

Globalization, however, had nothing to do with the policies that were prescribed. These policies were a reaction to the perceived failure of the ISI being practiced in the developed world. Blame was never directed towards the amount of exposure these nations had to the global economy and there was never a concerted attempt to regulate the cost of essential commodities such as oil. These are two options which would have been more productive starting points for helping these nations.

The previous chapter has already given two concrete examples of the failure of the Washington Consensus' policies to produce favourable results in East Asia or in the eastern European states transitioning from communism. The Mexican example cited in this chapter is not the only negative experience from Latin America. Massey, Sanchez and Behrman have concluded that GDP growth in Latin America was being outpaced by population growth, inequality was still increasing and although the median amount of national debt decreased leading up to 1993, it was on the rise again after 1995 (possible spillover from the Mexican Peso Crisis). According to Plaza and Stromquist, Peru's rural areas suffered the most during the periods of SAP. When they opened their agricultural markets they saw sharp declines in the value of their products, similar to the tortilla industry in Mexico after adopting the SAP. This was because, among other things, they were in direct competition with extremely efficient and heavily subsidized farmers from the United States<sup>127</sup>.

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<sup>127</sup> Plaza, Orlando and Nelly Stromquist, "Consequences of Structural Adjustment on Economic and Social Domains: Two Decades in the Life of Peru" in American Academy of Political and Social Science, Douglas, S. Massey, Magaly Sanchez and Jere R. Behrman eds. *Chronicle of a Myth Foretold: The Washington Consensus in Latin America*, (Thousand Oaks, London and New Delhi: Sage Publications, 2006).

Rio de Janeiro has seen increases in crime since the destabilizing effects of the SAP thirty years prior. Perlman noted that a destabilized economy had created many barriers to mobility for individuals living in dangerous areas. Her survey's concluded that citizens felt trapped between allegiances to the gangs and to the police, both of which that have been characterized as doing more harm than good.<sup>128</sup>

In Africa Stiglitz noted the negative impact of the SAP. Opening the continent to capital markets did not attract investors, except those interested in pillaging natural resources. He cited an example of Ethiopia not being able to include the foreign assistance they received as part of their fiscal calculations. They were forced to save foreign aid as reserve funds, and were not permitted to use it to pay debt, build roads or schools.<sup>129</sup> Stiglitz noted a concerted effort by a select few African nations under new leadership in the 1990s to curb corruption and their deficits. Within these nations there were small periods of growth, but even the successful countries failed to attract much investment. Large markets in Asia, with more highly educated labour force, better infrastructure and fast growing economies were deemed more attractive.

Unfortunately, African economies saw large increases in population and the agricultural sector suffered. This then allowed old problems associated with increased poverty, namely crime and government corruption to be recycled and become issues all over again.

While it is clear that many of these problems existed independently of the Washington Consensus, the problem is that in many cases these policies worsened the

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<sup>128</sup>Janice E. Perlman, "The Metamorphosis of Marginality: Four Generations in the Favelas of Rio de Janeiro" in American Academy of Political and Social Science, Douglas, S. Massey, Magaly Sanchez and Jere R. Behrman eds. *Chronicle of a Myth Foretold: The Washington Consensus in Latin America*, (Thousand Oaks, London and New Delhi: Sage Publications, 2006).

<sup>129</sup> Stiglitz 2006, 41.



situation. The financial collapse in East Asia, hyper-inflation and corruption in the ex-communist states, rural and agricultural poverty in Latin America and corruption and overpopulation in Africa were the results of neoliberalism. It is not a coincidence that these policies failed in all of these locations, save for the economies that chose a tempered form of neoliberalism (similar to that being practiced in the developed world). This was because none of these policies were actually designed for any of these nations or regions. This is why it is important to understand the causes of these failures in order to avoid a repetition of such careless policies. Had these nations been able to design regionally specific policies and determine their own level of integration into the global economy (meaning creating their own freedoms), these policies may have produced better results in the long run.

The myth that globalization is the cause of these shifts is dispelled by retracing the major historical developments from the Interwar period onwards. The myth that globalization has created winners and losers, and has created stratifications between the rich and the poor is not valid, because globalization does not have the capacity to do so. Globalization's processes are omnipresent and existed during the command and control economies of the post-WWII era, as well through the neoliberal revolution of the 1970s and 1980s.

Ideology is a powerful construct, and has the capacity to shape any environment. Neoliberalism is not a malicious concept, like any ideology, it is simply flawed by being a product of an historical epoch. Even centrist globalizers, who each attempted to remove themselves from their subject and analyze globalization impartially, became

victims of their own ideologies. They made value judgements about what globalization has and has not done, or what it is and is not, based on their interpretation of the global environment. This is important, because it is not just the anti-globalizers and the hyper-globalizers (or Neo-Marxians and Neoliberals) which should be critiqued for narrowing their analysis. Neoliberalism may have numerous flaws, and may have manifested itself horribly in the form of the Washington Consensus, but there were many internal problems which existed in these nations before neoliberalism, and will continue to exist after it is replaced.

Amartya Sen's work taught that freedom can and should be conceptualized in a number of ways. Translating his interpretation to the international community allows for a more sophisticated understanding of the process and opportunity limitations created by neoliberalism. Once again, these limitations cannot be imposed unless there is an ideologically driven authority structure imposing values and altering experiences.

The purpose of presenting Amartya Sen's work was to suggest that his analysis explained the importance of being sensitive to the types of freedoms society creates and denies. Although his work is limited by not having a concrete model for application, it is a useful starting point when establishing the objectives of an ideological position or critiquing one that already exists.

This concludes the third chapter of the thesis. The fourth and final chapter will be a summary of the thesis as presented, including the primary aspects of the argument. It will also discuss the overall intents of the thesis and the manner in which this research was intended to be used.

## Chapter 4

### Conclusion

This thesis has touched upon a number of themes in order to demonstrate the myth of globalization. In order to understand the sources of great transformations of political, economic and social significance of this or any other time period, the role that ideologies play within any environment must be examined. While this thesis has narrowly focused on neoliberal ideology and its specific limitations, the same type of analysis could be done with communism, socialism or even embedded liberalism. The idea was to demonstrate that ideologies maintain a particular relationship with their environment, which is different from that of globalization. The difference is that ideologies transform and manipulate an environment, while globalization is a description of the social, political and economic interactions taking place within it. Attributing global developments in part or in whole to the processes of globalization demonstrates a lack of understanding of what globalization actually is, and neglects the role dominant structures in any society have in establishing the rules of interaction. These rules are the determinants of the types of dynamics which will and will not be present in a given environment. These dynamics, regardless of their intentions, will privilege certain groups and suppress others, whether it is for the good of the collective or the freedoms of the individual.

The introductory chapter cited Held and McGrew's definition of globalization and the rest of the thesis used this interpretation as a guide. This starting point immediately highlighted a number of things. First, globalization is not a new phenomenon, even

though the current global environment may have specific characteristics that are unique. Second, the extent and diversity of globalization's effects are real and unevenly dispersed around the world. This was not due to any American or Western conspiracies, but rather to the different social, political and economic dynamics that exist in every nation. Third, foreign and domestic policy is not always mutually exclusive. While related, this relationship has always existed in the same way globalization's processes always have.

Hyper and Anti-globalizers did not agree with the position taken by Held and McGrew or the Centrist group generally. These two groups contributed to the myth by conflating the idea of globalization with neoliberalism. They all took a somewhat ahistorical view of globalization, although each author in both groups claimed this was not the case. This was why neoliberalism and the Washington Consensus were such useful tools to refute these claims. This was done by first examining all of the aspects of neoliberalism, then by highlighting the fact that it does not create the correct types of freedoms. This was followed by an example of this limitation which materialized itself in the form of the Washington Consensus.

This brief historical retracing of the developments which preceded neoliberalism and the Washington Consensus, demonstrated that while globalization had always existed, it was the ideological commitments of the dominant structures of a given environment that determined the dynamics.

While globalization has been called "inequality" or a cover for US imperialism, no anti-globalizer who claimed to understand the history behind these processes had ever attributed anything negative that occurred *before* the Washington Consensus to

globalization. Globalization was never blamed for the Great Depression, WWI or WWII, Colonialism, or even the American or French Revolutions. These events could easily be blamed on globalization if one were going to attribute this phenomenon to growing disparities between the rich and the poor, or concentrations of corporate and financial power which have become common in recent decades.

The same argument can be made against the hyper-globalizers. They did not praise globalization for ending the Cold War, or the establishment of embedded liberal/ISI strategies that worked well in numerous locations around the world. Globalization was not praised when the Bretton Woods system was established or replaced, nor was it not blamed for the double-digit interest rates in the developed world in the 1980s and early 1990s.<sup>130</sup> There was a definite double standard and an over-emphasis on events that have recently taken place, as opposed to looking at them in a broader more historical context.

Centrists can also be charged that they did not fully acknowledge the relationship ideologies, namely neoliberalism, has with the processes of globalization. While they are two separate phenomena, neoliberalism could not exist in its present form unless the channels of globalization were as sophisticated as they are. The internet, modern financial institutions and transportation technologies have created an environment of near limitless opportunities. While it is true that the obstacles to regulating any environment are political in nature, it must be acknowledged that globalization has made it easier for vulnerable groups and nations to be exposed to the volatility of global developments.

David Harvey and Aihwa Ong presented two different but complementary interpretations of neoliberalism that served the purpose of highlighting the various

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<sup>130</sup> Leys 2001, 41.

aspects of this ideology. Harvey's definition included all of the technical aspects, and argued that neoliberalism has very clear goals. He stated that that neoliberalism emphasized the capacities of the individual to make correct value-maximizing decisions because all information is complete and available. The state does not have the capacity to replicate the diversity and quality of various individual activities, and should not interfere with these activities unless it is absolutely necessary.

Ong's definition acknowledged all of what Harvey argued, but challenged that neoliberalism has recast activities and problems as non-ideological and non-political. Through this lens every problem required technical and not political solutions; asymmetries between groups and actors were due to the technical dynamics of an environment and had nothing to do with individual actors.

Ong's position was a major part of the foundation of the overall thesis' argument. Not only did Ong's position highlight that ideology and dominant political structures determine the technical aspects of an environment, it also demonstrated why the hyper and anti-globalizers conflated globalization with neoliberalism. It was because they too became the type of victim ideology theorists mentioned in their work. They became wrapped in the dynamics of their environment and were unable to separate the ideology that shaped their experiences from other developments happening around them.

Within all three groups of globalization theorists, issues surrounding poverty or concentrations of power, or even debt in the developing world were discussed as though they required *only* political and economic support to be fixed. While those types of support are necessary, very few authors discussed the possibility that it *also* required a re-

conceptualization of how dominant actors interacted with other sectors of society. This is what Ong argued in her analysis.

A re-conceptualization would mean an alteration of the types of freedoms that were and were not extended to all actors in society. An ideology such as neoliberalism, which creates near limitless freedoms for all, does not concede that only certain groups have the capacity to exercise these freedoms. Also, when privileged groups have access to more freedoms, it gives them an increased capacity to extend influence on other groups. The work of Amartya Sen demonstrated the importance of creating the types of freedoms that were actually consistent with an individual or group's values, and to ensure that these freedoms were actually attainable. This involved not only a re-evaluation of how progress was measured, but also an emphasis on creating negative freedoms for certain powerful groups. Creating negative freedoms would acknowledge what authors, such as Keynes, argued in "The End of Laissez-Faire":

It is *not* true that individuals possess a prescriptive 'natural liberty' in their economic activities. There is *no* 'compact' conferring perpetual rights on those who Have and those who Acquire. The world is *not* so governed from above that private and social interest always coincide. It is *not* so managed here below that in practice they coincide. It is *not* a correct deduction from the principles of economics that enlightened self-interest always operates in the public interest. Nor is it true that self-interest generally *is* enlightened; more often individuals acting separately to promote their own ends are too ignorant or too weak to attain even these. Experience does *not* show that individuals, when they make up a social unit, are always less clear-sighted than when they act separately<sup>131</sup> [emphasis in original].

Keynes understood that good can come from individual behaviour, and negative can be derived from collective action as well. However, this was not a concrete rule that should be used as a guide. Private interests may have spillover collective benefits, but to assume that they will always function for the greater benefit of society is optimistic. This is why

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<sup>131</sup> Quoted in Festenstein and Kenny 2005, 99.

it is important to limit the freedoms of certain private interests in an effort to make already existing positive freedoms more attainable for all groups in society.

As a whole, this thesis was intended to be a step forward as well as two steps backwards, and this was particularly true of Chapter Three. It was supposed to be a step forward in the sense that it would further understandings of global developments by being able to isolate the causes of problems that may arise. For example, retrospectively it is clear that a more sensitive approach to the debt problems in the developing world, and the patience to accept long—over short-term goals could have created a better scenario. In addition, this sensitive approach would have also forced developed nations to acknowledge their role in facilitating these problems, and perhaps the creation of alternatives to avoid any reoccurrences. In order to make these suggestions, it was necessary to isolate the aspects of the previous arrangement through the Washington Consensus that were not beneficial and their causes. Separating globalization from neoliberalism and deconstructing its characteristics facilitated this isolation.

Equally, the thesis was also meant to be two steps backwards because, in order to move forward, it was necessary to back away from the major themes in order to establish their origins. Globalization was more ambiguous because it is a process that has always existed, even though it is now very different and more sophisticated than it has ever been. The Washington Consensus was easier to manage because it was the application of neoliberal ideology in the developing world, and the policies that existed before and after the Consensus were all well documented. Conversely, neoliberalism required a bit more deconstruction and required a step further back. The intent was to go beyond explaining



what neoliberalism was and then associating it with the failures of the Washington Consensus to produce favourable results; it was to isolate specifically what within neoliberalism caused these problems. Once it was clear that neoliberalism's doctrine advocated the creation of near limitless positive freedoms, it was necessary to find out why this was the case. Deconstructing neoliberalism into neoclassical economics and classical liberalism, and highlighting the aspects within each, demonstrated that both maintained an idealistic interpretation of human behaviour that did not reflect reality at all times. This interpretation was best articulated by Milton Friedman and was built on the idea that there were natural protections built into all market transactions. The type of knowledge and symmetry between actors that Friedman theorized would have created a utopian market environment, as it would have produced absolute equality. All actors would have the same information and the same capacities and would constantly be maximizing their utilities. It would be impossible for anyone to gain a decided advantage over another, because everyone would be aware of the implications of every decision they made. The Washington Consensus demonstrated the limits of Friedman's theories by confirming that not only do all actors not have complete and accurate information, but also that asymmetries between actors are omnipresent and will often determine the characteristics of any transaction.

While these assumptions explained why neoliberalism advocates near limitless freedoms, it was still not clear why so many groups, nations and institutions adopted these principles. The second step backwards went beyond the aspects of neoliberalism and discussed the concept of ideology. In addition to being reactionary, ideologies maintain a particular relationship with their environments, and this relationship highlights

the transformative elements within them. Through experience, falsification and authority dominant structures have the capacity to create ideologies and make them the lens through which individuals, groups and institutions view themselves and everything around them. These structures create and remove freedoms in a manner consistent with the dominant ideology, and limit the amount of alternative perspectives which can be heard and put forward. Examples by Colin Leys in Britain, the imagined economies described by Cameron and Palan, or the numerous changes made through the Washington Consensus, were demonstrations of the transformative capacities of neoliberalism specifically, and ideologies generally. These changes could not have been caused by globalization because it does not have the capacity to do so.

It was only by taking these two steps backwards was it possible to demonstrate the myth of globalization. It was necessary not only to understand the limitations of neoliberalism, but of ideologies as a whole. The results of the Washington Consensus may have varied from region to region, but the common trend was that it worsened an already poor situation. Neoliberalism was established as a reaction to the perceived failure of embedded liberal policies. If neoliberalism is going to be replaced, it must be done with an ideology that is uniquely designed to accommodate the specific needs of the location where it is being applied.

Finally, any new ideology must realize that globalization presents an obstacle as well as an opportunity. It is an obstacle because, as it connects: individuals, groups and nations—socially, politically and economically, it does not come with any rules or explanations how to organize these interactions. If attention is not paid to the types of freedoms that are being extended to all structures, whether dominant or not, the realities

of the Washington Consensus may rematerialize. Conversely, it is an opportunity to integrate the developed with the developing world. This must not be done in the paternalistic fashion described by Soederberg, but rather as an opportunity to share and not impose knowledge, and to spur development through cooperation rather than exploitation in the export processing zones. Through globalization's technologies, the capacities exist to undertake this cooperative venture. In the same way products can be manufactured and shipped to the developed world, ideas and technologies can be transported to the developing. Regardless if centrists were willing to sufficiently acknowledge the role ideologies play in the globalization debate, they were still correct that many of the major obstacles to regulating and improving the global environment remain political in nature.

#### *Limitations of the Thesis and Future Directions*

While this thesis has attempted to be as comprehensive as possible, there are still limitations to this research and future directions that should be explored. Many of these limitations were purposeful exclusions to maintain a certain level of clarity and simplicity. The argument presented required the analysis of numerous themes which themselves required further deconstruction. This is why it was necessary to limit the depth in which certain aspects were treated if they were not essential to support the main argument of the thesis.

The first limitation of the thesis was that it did not go into detailed specifics of the Washington Consensus. The reason was because the Washington Consensus was not the core of the argument. It was one of the central themes that linked the argument together, but it was not necessary, nor was there the capacity to treat all of the nations that were

affected and the diversity of the results that materialized. Focusing narrowly on one region or nation would have allowed for a more detailed discussion of the effects of the Consensus, but the intent was to demonstrate the broader international implications of neoliberalism and its transformative capabilities. Therefore, it was more useful to mention numerous regions and a few nations from various locations, as opposed to a specific case study on only one region or nation.

The second limitation of the thesis was that it did not treat very many of the ideology theorists to create a more detailed historical timeline discussing the evolution of this concept. The purpose of discussing ideologies was to demonstrate the relationship that they maintain with their environment and their transformative capabilities. If the thesis would have gone into any more depth on the concept of ideologies, it would have warranted a place in the literature review. The intent was to focus on demythologizing globalization and highlighting the transformative capacities of neoliberalism through the Washington Consensus; focusing too much on ideologies beyond what was done would have distracted from the overall point.

The third and final limitation of the thesis related to the concept of freedom that was presented in the Chapter Three. Freedom is the central aspect to every ideology and is a difficult concept to discuss. Even ideologies which prioritize solidarity, order or communal belonging are still dependant on adequate levels of freedoms in order to attain these societal goals. Not even Amartya Sen was prepared to attempt to provide a complete definition of the word Freedom, and instead resigned to discussing the process and opportunity aspects of the idea. For this reason, the thesis had to limit the discussion on freedom to the aspects which demonstrated the limitations of neoliberalism.

The thesis could have explored the work of Isaiah Berlin regarding freedoms, John Locke regarding property rights, or even J.S. Mill who argued that freedoms such as the right to vote, should be restricted to those who have the capacity to understand the implications of what they are doing.<sup>132</sup> While interesting, these contributions would have also distracted from the overall intents of the research.

This was also the reason that there was a purposeful exclusion of the work of Adam Smith and J.M. Keynes from the thesis. Both of these authors contributed a great deal to the understanding of freedom and discussed in detail the relationship they believed the state, the market, and civil society should have with each other. However, more so in the case of Smith, there continues to be debate over what exactly his work was advocating. For some,<sup>133</sup> it was the already existing unregulated aspects of neoliberalism that have been already discussed. While for others,<sup>134</sup> Smith was advocating a tempered liberalism that still maintained an important role for the state, in a fashion similar to that of Keynes. Instead of engaging in this debate, and detracting further from the mythology of globalization, it was better to not engage at all.

Considering all of these limitations, they opened the door for future directions of research to follow what has been presented here. With very small exceptions (Buchanan 2005), there was a noticeable absence in the literature, whether it was supportive or critical of neoliberalism, to acknowledge the contradiction which existed between

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<sup>132</sup> C.L.Ten, *Democracy, Socialism and the Working Class* in Skorupski, John eds. "The Cambridge Companion to Mill," (Cambridge: Cambridge University Press, 1998), 372.

<sup>133</sup> An excellent example is: Deepak Lal, *Reviving the Invisible Hand: The Case For Classical Liberalism In The Twenty-First Century*, (Princeton and Oxford: Princeton University Press, 2006).

<sup>134</sup> Stephen Copley and Kathryn Sutherland, eds. *Adam Smith's Wealth of Nations: New interdisciplinary essays*, (Manchester and New York: Manchester University Press, 1995).

neoliberal theory and practice. Chapter Two highlighted the theoretical foundations of neoliberalism and discussed the classical liberal ideal. This ideal was extremely concerned about concentrations of power and viewed them as the biggest threat to individual liberty. However, neoliberalism, whether in the developed or developing world, has not only allowed, but facilitated the concentration of individual and corporate power in media, telecommunications and financial industries. Further research should explore why concentrations of state power are considered wholly unacceptable, when concentrations of private power is not; or if this development is simply a result of practical application diverging from its theoretical foundations. In either instance, the point remains that both types of power concentration have the potential to be equally repressive, and under the liberal ideal, one should not be preferred over the other.

This research was intended to be used to develop a clearer understanding of what globalization is and what it represents. While it is not a new phenomenon, its present level of development has created a new dynamic in the international community that cannot be ignored. As ideologies represent the most transformative dynamic within any environment, through globalization they have an increased capacity to spillover into other regions, nations and communities. This presents a danger because not all societies are designed in the same fashion, or equipped to handle everything that the global community has to offer.

Three groups of globalization theorists were presented in order to highlight the diverse perspectives that exist. This thesis may be viewed in the centrist category, but is still in agreement with a great deal of the findings from the other two groups. While

there is a general agreement over what has happened over recent decades and the major actors that were implicated, the major divergence with this research was to demonstrate that there is another source to these transformations.

In “The Will to Powerlessness: Reflections on Our Global Age” Pascal Boniface argued, that the ideological commitments of intellectuals have purposely simplified their analyses of global developments. He stated that these simplifications created an inherent contradiction with their heightened desire to understand the world, and limited their capacities to develop meaningful alternatives to any problems that may exist. Boniface challenged that: “Those who want, if not to change the world at least to alter its course, ought to know that they would have more success if they first understood it correctly.”<sup>135</sup> While Boniface’s work may have highlighted the obstacle ideological commitments present for intellectuals, he did not acknowledge that it is impossible for any rational individual to be without any commitments at all. Even if this thesis had taken four or five steps backwards in order to better understand global developments, it still would have been limited by the author’s ideological commitments. The information presented has clarified the sources of many global transformations regardless of these limitations, and demonstrated that demythologizing globalization was an important step forward.

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<sup>135</sup> Pascal Boniface, “The Will to Powerlessness: Reflections on Our Global Age” (Kingston: Queens Quarterly Press, 1996) 10.

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