

Political Ideologies Contexts, Ideas, And Practices
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Lecture 10
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The forms of liberalism are classical liberalism and neoliberalism, or perhaps I should say the main forms, classical liberalism and neoliberalism. They both involve a strong form of egoistical individualism. What does that mean? It means that, according to liberalism, we're rationally self-interested beings, and we have a strong capacity for self reliance. On this view, we are like individual atoms which make up society.

Individuals are the basic units of society, and we have natural rights because we are individuals. We have already noted the principle of a negative right to freedom from coercion and we have noted the liberal theorists', right, statement of a right to life, liberty and property, particularly associated with John Locke. Not all liberals have seen this in quite the same way. The United States Declaration of Independence famously states the right to life, liberty and happiness.

But in many of the earlier debates, people like Thomas Jefferson, who participated in writing the Declaration of Independence, used phrases like 'public happiness'. Jefferson himself had written earlier of a right to be, a *right*, to be a participator in the government of affairs. But the current statements of liberalism largely put liberal constitutions in terms of rights to life, liberty and happiness rights to, sometimes, rights to life, liberty, property.

Property is certainly a central right in liberal thinking. Well, economic freedom, therefore was and remains an essential element in liberal theory. Adam Smith, for example, saw the economy as a set of interrelated markets. This overall system, he thought, would work when it was left to itself and work best when left to itself. The theory is that the aggregate or overall results of self-interested individual actions, that is Smith's, I quote, 'invisible hand' would automatically produce the best outcomes in the most efficient way.

But, in liberal theory, economic freedom of this kind also involves a strong commitment to the state. Liberals do not call for the abolition of the state. They see it as a necessary evil, but they need it to enforce contracts, to provide protection against attack by other countries, and to maintain internal order. This therefore can require a strong and comprehensive and highly militarized state.

That would be very different from the kind of thing John Locke, one of the major figures in classical liberalism, envisaged; what he thought of was, as he himself says, a night watchman. So Locke thought the state should be a night watchman, somebody that sort of stands guard in case we need him. Well, this means that different forms of liberalism show different concepts of the state. There are significant differences between classical liberalism and neoliberalism.

Neoliberalism is often said to be the dominant form of liberalism. It has had very wide currency from the 1970s until the financial crash of 2007 to 9 or thereabouts. But well, these differences are not fundamental and today some neoliberals see themselves as the true inheritors of classical liberalism. The classical form of liberalism was founded on philosophical theories of human nature and economics, and not all liberals, we must remember, we are completely confident about the benefits of the free market.

Adam Smith himself was deeply worried about the effects of the division of labour, that is the routinization of tasks in the new form of mass production, and Smith himself was also deeply worried about other consequences for the unrestricted market. He says the division of labour results in our doing a small number of repetitive tasks, to the point where anyone doing such a repetitive, monotonous job would become, I quote, 'as stupid and ignorant as it is possible for a human creature to become'.

He adds here that this is inevitable unless the government takes some pains to prevent it. Therefore, Smith's concern about the effects of the division of labour in mass production has consequences for the organization of labour itself and for the organization of the market. If the market forces the division of labour upon us, then government, according to Smith, must, as he says, take some pains to prevent it. Neoliberals differ from this. They have a rigid commitment to the free market and a strongly conservative social philosophy.

Yes, like classical liberals, they require a strong but very limited state to enforce the law and that includes contract law. Liberal theory recognizes that the market by itself needs a state to create and enforce contract law, and we also need a state to protect us against disorder or attack. Milton Friedman, the economist, considered that taxation for government spending would fuel inflation without reducing what he thought was a natural or inevitable rate of employment, of unemployment.

Friedman then thought there was a natural rate of unemployment, but that taxation for government spending would fuel inflation without affecting, without changing, this natural rate of

unemployment. So Friedman has a very strong suspicion of the state on economic grounds, and other neoliberals consider that the state has a strong role but a very limited role, such as enforcing the law and protect protecting us against disorder or attack.

Another famous neoliberal, Friedrich von Hayek, sees the operations of the market as a natural law, like the laws of physics. What does that mean? According to Hayek, that means that any intervention in the economy is based on a misconception. It is the wrong kind of thing to do. Because the market is like the operation of natural laws, we cannot interfere with it - we just create chaos. He also says Hayek also says that while we act to advance our immediate self-interest, the overall workings of markets are so complex that no individual can predict the aggregate outcomes of their own actions in the free market.

Nobody can predict the outcomes of the market, we can only see the aggregate outcomes, we cannot predict them, whether the outcomes of our own actions or overall actions. Well, I shall cover the later part; the conceptual problems we'll cover the conceptual problems of liberalism later in this topic. But here, we need to look at some examples. The empirical record of neoliberalism has been severely criticized, and that is happened both before and after the global financial crash of 2007 to 9, we are still recovering from that, according to a great many people around the world.

One major criticism comes from the 1970s. It seems to have been agreed by the US government in particular, and the US financial sector, that in any kind of economic crisis, the financial institutions must be protected by the state, irrespective of all other consequences. The financial institutions, in particular the commercial banks, almost certainly knew how insecure they were, and how financially dangerous even their everyday business activities were, despite the fact that under a liberal ideology organizations which is not efficient in the market must fail. In the 2007 to 9 crash, the major commercial banks simply demanded and got 700 billion dollars in public funds. Hundreds of millions of ordinary people paid the price for that, as large scale unemployment spread throughout the world. The 700 billion dollars may be an underestimate. I have taken that - it may well be a cautious estimate. I have taken my material here from David Harvey's book of 2013 on this subject.

Well, the second problem - the amounts of paper money generated by unrestricted financial speculation are now scarcely credible. They mean that the only place such monies can be invested is in more paper money. That is in stocks and shares or financial instruments completely unconnected to productive activity.

This amounts to a colossal inflation of notional asset values, and when we combine those notional asset values with the near elimination of credit for all but the best paid workers, that is the highly qualified professionals, then, apart from the very rich, only a sharply dwindling number of people can even consume the goods they produce.

Now historically, none of the major industrial countries developed as free market systems. Almost all of them were highly protectionist, and they imposed bans on exports and imports until their own industries had expanded enough to destroy competition in other countries. Many of them also protected industries selectively and stole technological innovations from other parts of the world. Imperial powers, as is well known in India, banned the production of several different kinds of goods in their own subject territories.

In 1721, the British Prime Minister Robert Walpole introduced legislation and policies which imposed heavy tariffs on imported manufactured goods. These also reduced or abolished duties on imported raw materials, and subsidized the export of British manufactured goods. This kind of protectionism included a ban on the import of the then superior Indian cotton, and it included a ban on the export of wool by British colonies such as Ireland and America.

Those bands help to destroy the wool industry in Ireland, and slowed down its progress in America, where it also helped to delay technological advances. I have drawn that from Ha-Joon Chang's Chunks work on industrial capitalism. Now British tariffs on manufactured imports averaged 45 to 55 per cent. In that period, the highest rate on the continent was levied by France at about 20 per cent.

The British government maintained these policies until the middle of the 19th century. They're very similar to the policies adopted by Japan, Korea, I should say South Korea and Taiwan and by Germany, France, Sweden, Austria and Finland after the Second World War; in several aspects, they also resemble the policies followed by India from Independence in 1947 until 1991.

The success of these policies in East Asia, Japan, South Korea, and the like has been trumpeted around the world, but it's less widely known that they were also very successful in India and they almost certainly laid the foundations for India's further development, despite the huge increases in inequality since 1991.

Well, what'ss the greatest example of success through protectionism? That is the United States. Despite strong opposition from the leaders of the southern states, most notably Thomas

Jefferson, the hard protection advocated by Alexander Hamilton in 1791 saw duties on manufactured imports rise to 40 per cent by 1820. Abraham Lincoln was a strong protectionist, and at least one analysis sees the bitter disagreements between northern protectionists and southern free marketeers as a more important cause of the American Civil War than slavery.

Now it hardly needs saying that industrial countries started advocating neoliberalism for others only after they had themselves achieved nearly complete industrialization. We shall see in the next chapter, which is on Marx, that it is the transformation of raw materials into finished goods that creates and adds value.

Well, I have given you an account of classical liberalism and the kinds of issues it raises. I have also shown, with supporting evidence, that what we regard as the industrialized countries all used highly protectionist measures during the, during the period of their industrialization. How that is to be reconciled with liberal economics is far from clear.

There is another form of liberalism. As I mentioned, it's called modern liberalism, in contrast to classical liberalism. Both of these involve a moral element. According to them, market competition makes for more efficiency. We rise or fall according to our own efforts, and the unequal outcomes of markets only reflect natural inequalities between human beings. We're different in our ability and capacity for effort. So, the state must not try to equalize natural inequalities. We deserve to end up wherever we end up.

This element of morality runs through all forms of liberalism. It has been called Social Darwinism. There's an analogy with Darwin's theory that hierarchies are entirely natural, and that the fittest and strongest survive and come to dominate. But there is a version of liberalism which requires that we attempt to equalize several aspects of society so that we all get the best possible chance to achieve the best we can achieve.

This version is called modern liberalism. Historically, it's most closely associated with the New Deal, which was implemented by US, the US President Franklin Delano Roosevelt between 1933 and 1945, and it's also associated with the mixed economies of the post war period in North-western Europe and Scandinavia. Conceptually, it originates with John Maynard Keynes's book, *The General Theory of Employment, Interest and Money*, which was published in 1938.

Roosevelt was attempting to get the US economy moving again during the Great Depression. The depression followed the financial crash of 1929 and he tried to introduce substantial spending by the US federal government, by way of deficit funding in the expectation of future

revenues from an improved economy. By the way, I should check, I will check the date of the Keynes's book. It may be 1936, in my edition it said 1938, my own edition.

But what about Roosevelt? He was trying to get the US economy moving after the Great Depression, and he tried to introduce substantial spending by the federal government. It was called deficit funding in the expectation of economic improvement, which would then result in future tax revenues. Keynes provided a theoretical explanation of why standard assumptions of mainstream economics could not explain the persistence of economic slumps and economic depressions, even though prices would fall, labour costs would fall and so on. Well, why was it that economies did not seem to revive by themselves with these falls in prices, labour costs etc, and so on? A part of Keynes's argument was that in times of economic uncertainty, ordinary people spend less rather than using any savings assuming they have any. So, spending less means slumping consumption; that in turn means controllers of capital are reluctant to invest because they cannot be sure of future sales and future profits.

Secondly, giving ordinary people money, say in tax breaks, meant they were more likely to spend the added money immediately than, say, very rich people, or very large businesses, for whom such, you know for them such money was simply not necessary for daily survival or everyday necessities. Those were Keynes's economic explanations, but Roosevelt and Keynes both had highly political motivations.

Roosevelt promised to save capitalism by reforming it, and he was deeply troubled by the extent of poverty and suffering the Great Depression had caused. In 1933, US employment reached 25 per cent. Unemployment reached 25 per cent in the United States. Roosevelt also had to overcome strong resistance from opponents who contended that the increased cooperation the New Deal needed between the federal government and the states amounted to a violation of States' rights under the tenth amendment to the constitution.

Such people also thought federal funding for the states would give Washington increased power over policy at state level. We may be familiar with those issues in systems other than the United States, but in the United States, the tenth amendment gives states enormous powers, that is, virtually over everything that is not specified as a federal power held by the federal government.

Keynes himself saw two main problems. One was that in any slump, people simply spend less, and the circulation of money is reduced, with a much greater impact - the Keynesian system multiplier effect - on all economic activity. Secondly, Keynes could have left a matter at that as

a contribution to economic theory, but he was much more worried that a slump or a persistent a sustained slump would make socialist or communist ideas much more attractive.

Keynes hated and feared both socialism and communism and so he proposed something similar to Roosevelt's New Deal. The state would spend money and if needed would embark on large-scale public projects in order to get people back into work, to get money circulating again as a direct result, and to make minimize or eliminate the attraction of socialism or communism.

At that time, this form of political economy was revolutionary, and it was highly controversial, but both Keynes and Roosevelt saw their policies as temporary. In his second term, which lasted from 1936 to 1940, the United States suffered a second slump and that meant that even the limited Keynesian measures Roosevelt tried were not working. For his part, Keynes seems to have thought that government spending to revive the economy would be needed only until the economy was running again under its own steam.

What seemed to rescue the US economy was government-funded war production for US allies, as the Second World War intensified. That continued and accelerated after the US entered the war in December 1941. For the rest of the war the government ran what was in effect a command economy - the war effort required what has even been called war socialism. It included enforce savings, controls on money, credit prices and labour, also controlled government borrowing such as war bonds, war bonds or war loans stock were issued, and food, petrol, and much else were rationed.

These had already been applied during the First World War as well, but such interventionism has sources in liberal theory itself. Modern liberalism is associated with what can be extensive state intervention and regulation to moderate the worst effects of the unrestricted market. This intervention usually takes the form of unemployment benefit retirement pensions, state funded education, state supported healthcare systems.

We are familiar with all of those. Another common feature is of potentially far reaching legislation with courts or tribunals to enforce laws against arbitrary discrimination on the grounds of gender, race or ethnicity, caste or faith or whatever. These kinds of laws are sometimes expressed as constitutional provisions and they are found in virtually all democracies, they are intended to end or at least reduce the effects of long-standing attitudes, and long-standing social structures which systematically disadvantage very large groups of people - in the case of women, one half of humanity. Such laws are not meant to aid equality of outcome. They are

meant to aid progress towards equality of opportunity. Among political philosophers, John Rawls, for example, has put forward a noted argument supporting such measures. He says that if people do not know their own social position, they will support greater equality because it is fairer than greater inequality, because we too could be, could end up in, an unequal position - if we do not know our own position and the outcome of any policy we favour, or any redistributive policy we favour. Rawls also holds that inequality should be accepted only if it works to benefit the poorest. Rawls therefore proposes that we make such decisions behind what he calls a veil of ignorance - that is his exact phrase.

He thinks people would support freedom or liberty for each person, provided that was compatible with similar freedom for all. In practice, most state benefits systems are based on liberal and not socialist theory. They require individuals to contribute through systems such as National Insurance, which is usually deducted from employees pay [and] also requires the employers and the state to contribute.

This applies to many healthcare systems, such as most of those in Western Europe and Scandinavia. Two notable exceptions are the British National Health Service and the Cuban health service. Both of those are founded on explicitly socialist conceptions of universal entitlement and free treatment at the point of need. The value of such systems to tens or even hundreds of millions of people is incalculable.

The British NHS was founded by the socialist Aneurin (pronounced A - nye- rin) Bevan, Health Minister in 1946. It is the most trusted and valued institution in the United Kingdom, and its standing has been documented as being even higher than that of the monarchy.

Modern liberalism, therefore, involves protections against the worst effects of the free market, but it also requires individuals to accept responsibilities such as pension contributions or other such payments and it also includes provision for procedure rights, such as free and fair elections, anti-discrimination legislation, and so on.

So, for modern liberalism, procedure rights are far more acceptable, far more acceptable than the idea of material rights. Under modern, even modern liberalism, material rights are not rights at all. This corresponds to the distinction between negative rights such as freedom from interference and positive rights, rights to things.

Well, I should pause there. We shall continue in our next lecture by looking at multiculturalism and then we shall wind up by looking at problems in liberalism and in things like the concept of toleration of rights and so on. We shall then do, well, a worked example.