

Full Length Research

Liberalism and Neo-liberalism: Evolution, Assumptions, Arguments and the Critiques in Africa

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The world history has made the journey across many trajectories of development paradigms since the beginning of the Palaeoliberalism/old liberalism to the contemporary argument of the revival of liberalism by the name of neo-liberalism. In this review paper, we came to understand that the essence of liberalism and neo-liberalism has been stretched with two tides of political as well as economic ideology. Due to the blurred created by the two side waves; it is difficult to separate the departure of neo-liberalism from the earlier classical liberal thoughts. As a result, the discussions regarding liberalism and neo-liberalism found to have the same philosophy on market is basic whereas government is secondary. Thus, finally, we recommend that developing countries should contextualize the neo-liberalism paradigm of development with the prevailing social, cultural and political history that each countries had internally. At the same time, we recommend the political dimension of neo-liberalism, notably, the democracy aspect in the context of developing countries to be assessed so that comprehensive understanding about the positive and negative implication of liberalism and neo-liberalism can be comprehend. For Ethiopia, though we recommend developmental state paradigm; we are stressed on the need for individual freedom than market interferences of the government.

Keywords: liberalism, neo-liberalism, critiques

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INTRODUCTION

The spirit of palaeo liberalism or old liberalism rooted back to the times of Adam Smith and David Ricardo who advocates free market economy for the growth of nations. The former believes that the growth and wealth of nations can be brought by free trade and division of labor which further results specialization of production on certain types of products while the later advocates that the growth and wealth of nations is based on free exchange of services and products in the abstinence of government

intervention and nations should focus on their comparative advantages of production (Willis, 2005). Economic liberalism which was founded by Adam Smith in his writings of the wealth of nations is the base for the former liberalism ideology (Stegmann, 2004). Through time the present neo liberalism and capitalist economic system evolved within the liberalism ideology of promoting private ownership of properties and free market.

However, the classical economists belief in the role of free market to emerge strong economy and wellbeing of humans was challenged by the economic crisis of USA in the 1930s. In response to this the Keynesian economics came to being to advocate the intervention of the state is helpful to rehabilitate the economy through expansion of infrastructure investment which have greater role for employment creation (Willis, 2005). Through then many theorists came up in 1970s to blame the intervention of the state in the economy. These neo-liberal theorists believe that the interference of the state drags the growth rate of the economy below the expectation. The free market economy is the decisive instrument for the growth of the economy and efficient allocation of the resources. Thus the recommendation was that governments have to withdraw from the market and left it to the forces of the market to determine prices and wages (Ibid).

Then nowadays, capitalism backed by neo liberalism which promotes strong private ownership of the economy and reducing the role of the government to establish playing fields for the market dominated the world economic system. With this brief background, this paper mainly focused on, firstly, on the arguments and assumptions underpinning the two economic and political ideologies. Secondly, the prevailing critiques on liberalism and neo-liberalism as well as its implication for developing countries, notably, Ethiopia were discussed. To do so, the prime sources for the arguments and discussion were a survey of literature from books and journals in the areas of liberalism and neo-liberalism.

RESEARCH METHODOLOGY

Liberalism and neo-liberalism as political philosophy as well as an economic doctrine have passed across various ups and downs. Thus, in this review the journey through which liberalism and neo-liberalism had moved discussed based on article review. This study is entirely on empirical review on liberalism and neo-liberalism the genesis, assumptions, evolution and of the critiques of the theories. Thus, the study is based on a survey of extensive literature review from conceptual to theoretical and empirical evidences. The method of analysis employed in this study is literature content analysis with meticulous organization and presentation of the result.

Liberalism and Neo-liberalism: Evolution, Assumptions, Arguments and the Critiques

Key Assumptions and Arguments of Liberalism and Neo-liberalism

The basic essence of economic liberalism concerned on four points (Stegmann, 2004). The first one is the

economic system flows naturally by itself as it is predetermined by the invisible hands and no way of intervention is necessary by the state. It is God's business to shape the flow of the economy for the happiness of human beings not of the responsibility of individuals. The second notion of economic liberalism is the total abstinence of the state intervention in the economy. Individuals have to be left to do everything and the economic system establishes its own natural flow by itself. The only responsibility of the state is to regulate law and order, keeping security, establishment and maintenance of nonprofit institutions such as schools, hospitals, etc. The third point of economic liberalism is the economic system is driven by the self interest of individuals. The provision of products and services by producers is for the sake of their own advantages not for the needs of customers. And this self interest of individuals create strong bond in between and further brought economic wellbeing of nations. The fourth belief of economic liberalism is competition steers the economic order. Every individual is free to compete in the market through his products and services and this brings harmony of the entire community to lead secured life through stabilization of prices without the dominance of one super actor and finally leads to the emergence of what we call capitalism.

Classical liberalism which is originated from the works of Adam Smith and his fellows bases its ideology on the freeing of individuals to participate through all the manners of any economic activity and lowers the role of the state to only improving the playing field and left the marketing competition for the market forces (Rapley, 2007). Following this an extension of classical liberalism, neo-liberalism come to exist with the same ideology of encouraging privatization of economies run by individuals which permit the international competition of service and product provision (Ibid). This enables the economy to prosper and make prices lower and also advance the efficiency of production and service delivery of competing firms. Neo liberalism come to exist in response to the 1970s and 1980s financial crisis and the contentions were the involvement of the government should be eliminated, leaving the economy to market forces, devaluation of currencies and deregulation, privatization and freeing restrictions of markets since the state led development resulted economic failure (Kiely, 2005). According to Harvey (2005) the tenet of neo-liberalism is establishing a strong base of private properties and increasing the roles of private companies to lead and stabilize the economy. The state have limited role of adjusting infrastructures in the market of neo-liberalist ideology and all resource distributions and marketing activities are corrected and improved by the free flow of capital and each individual is concerned on its own interest and also take any of the risks in the market. The free mobility of capital between sectors, regions and

countries is encouraged under the realm of neo-liberalism. The barriers of tariffs, punitive taxation arrangements, environmental controls and location impediments have to be eradicated and this led to the free competition of private enterprises which in turn would result efficiency of production and service delivery (Ibid). Peet and Hartwick (2009) described the principle of neo liberalism emerges from the ideology of classical economists and strengthens the avoidance of state intervention in the economy. The market can establish healthy systems by itself if it is left alone without the hand of the state. The function of the state should be limited at regulating peace and security and safeguarding it externally. According to the logic of free market advocated by neo liberalism the problems of inflation, low economic growth and stagnation, the financial bubbles and disruption are all due to government intervention (Due and Phong, 2010). All the economic failures and crises are because of external factors of government intervention not the internal ones and the market has its own regulation mechanism if we left it free to operate by itself (Ibid). In general as Huang (2011) put it clearly neo liberalism is a theory of political economic practice that proposes human well-being can be advanced by the freedom of individual entrepreneurial skills and characterized by free trade, strong property rights and free market. The role of the state is to preserve and create the institutional frameworks which are necessary for the application of the free market economy.

Liberalism and Neo-Liberalism in Africa and the Critiques

Liberalism and Neo-Liberalism in Africa

This sub-section has briefly presented, the implication of liberalism and neo-liberalism in Africa, including Ethiopia. It has been argued that the economic crisis currently confronting African countries has led to an almost universal embrace of neo-liberalism. At the core of neo-liberalism is the assumption that the crisis can only be understood within the context of the role of the state and the functioning of markets. In short, the neoliberal paradigm posits that the fundamental explanation responsible for the economic crisis in African economies is the excessive state regulation of the economies which, inter alia, distorts the process of economic development and leads to inefficiency in the allocation of economic goods (Simutanyi, 2006).

The western neo liberalism ideology came to practice in the third world countries through the Washington Consensus proposed by John Williamson in the 1980s, which promote foreign direct investment, deregulation, tax reform, reduction in public expenditure, competitive exchange rate, trade liberalization, financial deregulation

and privatization (Peet and Hartwick, 2009). Proponents of neo-liberalism have argued that by removing all the bureaucratic controls over the foreign exchange markets, African entrepreneurs would be able to import the necessary inputs for their industries while more foreign investments would be attracted into the continent. However, the experience of the World Trade Organization (WTO) Doha round of negotiations, suggests that the world trade and import regimes remain structured in favor of the developed capitalist countries that have imposed restriction on Third World imports to enter their markets. On the other hand, imports from developed capitalist countries have had free entry into African markets (Ibid).

For instance, in 1976 Zambia obtained a World Bank structural adjustment loan with a prescriptions of neo-liberalism, such as removal of subsidies on basic foodstuffs, liberalization of the exchange and interest rates, removal of import controls and liberalization of prices. However, the return has brought price which is manifested in terms of food riots of December 1996 and massive strikes by workers, and finally, worsened the living standards and provoking workers to link economic problems to political mismanagement (Simutanyi, 2006). Thus, neo-liberalism beyond its failure in economic context, the political implication it had in Africa was so explosive and destructive.

In addition, the neoliberal strategy also envisaged that by abolishing government control and direct participation in the marketing of agricultural products, by removing the role of the marketing boards, would increase rural incomes. It was assumed that this would encourage increased production for exports by the rural dwellers. However, the empirical study in Ethiopia revealed that export of oilseeds is found to be a negative function of Exchange rate variability. Therefore the continuous devaluation of Ethiopian birr was not in favor sesame export (Abule and Abdi, 2012).

Despite, the free market principle that the current Ethiopian government followed has resolved many distortions that were made during the Derge regime (Amanuel, Kibrom, Habtamu and Challa, 2016). There are a number of market failures that has been understood in the essay work. The market imperfections that denied the optimum benefit that the producers/farmers should get are related to limited price information, high transaction costs, many intermediaries, low level of market infrastructure such as roads, transport and communication and the subsequent, monopoly/oligopoly natures of some commodities' marketing, and weak regulatory institutions (Ibid). Thus, this clearly informs that letting the market to operate by itself in poorly established infrastructures and weak institution with prescription of neo-liberalism; is just like to let the newly born baby feed himself. At the same time, one comprehensive study empirically showed that the

negative impact of structural adjustment program on the poverty situation and income inequality of in virtually in all those who have implemented the SAP, including Ethiopia (Oberdabernig, n.d). As clearly articulated in the study by (Simutanyi, 2006) the fruits of neo-liberalism in fact were in the contrary to the expected positive achievement. As he passionately explained neo-liberalism had exacerbated poverty and inequality and the achievements were totally opposite. Neo-liberalism is playing for the rich category of the poor countries or for the foreign direct investors of the Western.

The Critiques of Liberalism and Neo-liberalism

Liberalism and neo-liberalism as political philosophy as well as an economic doctrine have passed across various ups and downs. In this section, the critiques against liberalism and the later neo-liberalism are discussed. One of the major limitations of the liberal economy was manifested during the great depression which has been occurred between 1929 and early 1939. As a result, what the distinguished economist Adam Smith (2005) argued for the invisible hand to operate through the demand and supply function signaled stoppage (Willis, 2005). The major causes of the depression started in USA due the failure of the market system notably, the decline the aggregate demand (Romer, 2003; Matziorinis, 2007). This was particularly the limitation of the liberal economy in which market fundamentalism failed to adjust the demand and supply in the country. Due to this fact much of the investors' loss trust with the market and tried to sell their stock at panic selling which subsequently led in to the fall in prices (Ibid). As stated nicely in Matziorinis (2007:1) "liberal democracies lost credibility as did the liberal market economic system". Thus, the critique of the liberalism as economic doctrine as well as political philosophy has produced wider disenchantment among the elites.

Professor Stegmann (2004) criticized the fruits of capitalist economy by saying though the capitalist system has produced imponderable achievements in terms of industry and commerce; however, extremely unacceptable impoverishments were flourished following the oppressive and disastrous effects of the capitalist economy. As per the Stegmann, "social question" had prevailed for twofold reasons on the capitalist economy. Firstly, at the initial period of the 19th century the prevalence of unemployment which made the "misery of human life to be a prerequisite and a condition of the factory" (Ibid: 15). Secondly, following industrialization, the paper illustrated the workers were treated as a commodity to be governed by the mechanical market principles of supply and demand. Thus, it is argue that letting the mechanical principle to govern the social setting as inhumane attempt of the capitalist system;

which gives an advantage for the elites and the capitalists to exploit the proletarian life of irrationally.

Secondly, following the revival of the liberalism by the name of neo-liberalism in response to the debt crisis in 1980s; the North has implemented the structural Adjustment Program (hereafter, SAP) through its mediating institutions such as International Monetary Fund (IMF) and World Bank (WB) (Willis, 2005). In effect, the SAP aimed at implementing the neo-liberalism theory of development on practice through¹ reduction in government wage, reduction in government expenditure, devaluation of currency, foreign direct investment, and privation were among others induced in the south. The critiques in the neo-liberalism development approach has mainly attached with the prevalence of unemployment, spread of poverty and the rise in cost of living; following the implementation of SAP (Ibid). As a result the decade between 1980s and 1998 termed as the lost decade for most of the developing countries due the prevailing stagnation (Easterly, 2001).

At the extreme level, specifically from political philosophy perspective they strongly questioned the positivist approach posing epistemological question (Boldeman, 2007). They argued that the liberalism thought to the economy is mainly on the bases on the positivism school of thought considering knowledge as the absolute true and unchangeable. However, the positivism thought has been exposed to serious criticism for perceiving knowledge as permanent and fixed which ignored the contemporary highly dynamic world (Popper, 2005). As a result, devising utopian project for the whole economy by the name of liberalism and later neo-liberalism has been criticized for that there is no absolute and homogeneous setting across the history of the world. To this effect, Boldeman (2007:131) has elucidated the erroneous of presenting single doctrine with the statement:

"The common thread... is the loss of any sense of objective certainty in the physical sciences or in political-cultural matters. As a consequence, we have to deal with a new and profound sense of historical relativism and the belief that there can be no overarching 'absolute' or unifying principle that can reconcile all the relativities of human thought and experience".

On the other hand, Polanyi (2001) who is one of the great opponents of the liberalism as well as neo-liberalism explained that the tendency of the liberal system is to switch the human based though of the social theory in to naturalistic that neither law nor the government is required to function. He argued that the classical

¹ This recommendations are also sometimes known as Washington Consensus

economists/ liberalists utopian project which in fact the self-regulating thought couldn't work in the reality. As a result, Polanyi further argued that economy should never be seen as autonomous; rather should be embedded with the cultural, political and social aspects of the whole system. In line with this, the egotism assumptions underpinning the neo-liberalism were seen as "make-believe". Put differently, the socio-cultural make-up too had influences on the egotism nature of human behavior (Peet and Hartwick, 2009:99). Moreover, social development the very essential ingredient for accelerating growth is undersupply by market forces which is enabled through "creating the proper blend of norms, values and rules to reduce uncertainty and transaction costs is a critical factor in accelerated growth and development" (Melese Zenawi, n.d:3).

This will lead us to the statement that market are not of spontaneously created. They are not solely emerged without the interference rather reality can evidences us that the journey towards free market were through intervention either to remove the old system or it create new institutions. Strongly, Polanyi also stated that nothing has happened naturally, laissez-faire and free market too. Further he argued that "Laissez-faire itself was enforced by the state" (Polanyi, 2001:145).

At the same time, the concept of liberalism as well as neo-liberalism also is criticized of being so elusive in terms of the scientific stand of the argument. For instance Boldeman (2007: 207) characterized the recent neo-classical economics as "... lack of methodological rigour, lack of empirical testing, and its unnatural fascination with mathematical formalism, and the grossly unrealistic and normative nature of its assumptions and the irrelevance of its conclusions for policy analysis".

SUMMARY, CONCLUSION AND WAYS FORWARD

The world history has made the journey across many trajectories of development paradigms since the beginning of the Palaeoliberalism/old liberalism to the contemporary argument of the revival of liberalism by the name of neo-liberalism. The classical liberal economics had dominated the economic doctrine since the great depression and before the Keynesian came to revisit the limitation of the market fundamentalism approach that magnify the paramount role state in new investment. The Keynesian paradigm has been seen as initial challenge against the classical liberalism that demonstrates the role of state in development and creation of employment.

However, due to the powerful influences of the Western politics and western economic doctrine; the Keynesian-state friendly thought has failed to exist after 1970. Immediately, following the Washington consensus, maintaining the earlier doctrines of liberalism has took the throne through a mechanism of reduction in government

wage, encouraging foreign direct investment, and ultimately privation and eliminating the role of state in development. However, the view of anti-state ideology of neo-liberalism has been criticized for some realities. It is argued that the attempts of neo-liberalism to remove state regulatory programs as a detractor of development; as they removes the natural response of government to the growing demand of burgeoning local business for power, transportation, and other infrastructures. As a result, though some Western economists and politicians still stuck with the role of free market for better competition and efficiency; strong critiques were forwarded during the great depression in 1929; the prevalence of "social question" of look mankind as a machine in the earlier industrialization; and recently the failure of SAP in Africa and some other Latin American countries. At the same time, the liberalism thought is being criticize for sticking with positivist philosophy of considering knowledge as the absolute true and unchangeable. Moreover, proponents argued that economy should never be seen as autonomous; rather should be embedded with the cultural, political and social aspects of the whole system.

In conclusion, we came to understand that the essence of liberalism and neo-liberalism has been stretched with two tides of political as well as economic ideology. Due to the blurred created by the two side waves; it is difficult to separate the departure of neo-liberalism from the earlier classical liberal thoughts. As a result, the discussions regarding liberalism and neo-liberalism found to have the same philosophy on *market is basic whereas government is secondary*. Thus, finally, we recommend that developing countries should contextualize the neo-liberalism paradigm of development with the prevailing social, cultural and political history that each countries had internally. Finally, we recommend the political dimension of neo-liberalism, notably, the democracy aspect in the context of developing countries to be assessed so that comprehensive understanding about the positive and negative implication of liberalism and neo-liberalism can be comprehend. For Ethiopia, though we recommend developmental state paradigm; we are stressed on the need for individual freedom than market interferences of the government.

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