

The Failure of Neoliberalism: Unfounded Assumptions And the “Colombo’s Egg”

Pezzani F*

Department of Policy Analysis and Public Management, Bocconi University, Milan, Italy

Abstract

We live in a time of socio-cultural inequality, unemployment, poverty, moral degradation, conflict, lack of imagination and creativity. Is all this the consequence of an incorrect adjustment of the markets (economic crisis) or the end of a socio-cultural model incapable of responding to the problems of man as a person not as an object (anthropological crisis)? This article attempts to respond to this question by discussing the role of economics as a science and a self-referential cultural model based on finance.

Keywords: Neoliberalism; Economics; Finance

Introduction

At the end of World War II, the physical and moral disaster following a long period of bloody clashes that actually started at the beginning of the last century led humanity to seeking a world and a society that could restore the sense of common good and place human dignity at the centre of economic and social development. Those years were marked by a compulsion to assert universal human rights in deeds: for the first time, the winners helped the losers (the Marshall Plan), a mechanism of monetary regulation (Bretton Woods) and the United Nations (UN) were established, laying the foundations for the European Union. John Maynard Keynes participated in Bretton Woods and considered it necessary that currencies be tied to the gold standard and not only through the dollar because its weakening would undermine the entire monetary system. He was prophetic, as he had also been at the end of World War I when he opposed the imposition of the unsustainable costs of the war on Germany that would then create the conditions for the resumption of the conflict. Keynes, however, had been a social scientist before being a scholar of mathematics.

The establishment of the UN was solemnly bound to the declaration of universal human rights on 10 December 1948. The preamble to the declaration states the recognition of the dignity of man, the equal and inalienable rights, the advent of a world free from fear and want as the highest aspirations of man. The various articles duly define the sense of freedom, of social and economic dignity. In articles 23-24-25, these rights are very clear “Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services”. This period of peace and social stability constituted the basis of unparalleled economic and social development in history, once again demonstrating that a solid and equitable society is the prerequisite of a good economy. However, the period of collaboration did not last more than twenty years and at the end of the sixties, upheavals were underway that re-created the conditions for the explosion of the crisis of our time. Fundamental human rights that at that time seemed carved in stone today appear to have been written in the sand of a beach that is constantly battered by waves. Thus, the “demons” of the human soul that the pain of the tragedies of war seemed to have eradicated re-emerged, perhaps in a more insidious and subtle way but also more dangerous. The principles of peace and freedom, especially in the economic and financial sphere, paradoxically helped to rebuild the new “pseudo-cultural” totalitarianism that surrounds us. Anders would have called it a “comfortable unfreedom” that confuses and validates

us, rendering us incapable of free thought and more like “plankton” perpetually at the mercy of the waves and the wind. Unlimited freedom assumed as an end and not a means has affirmed the ancestral greed of man and the rule that the strongest always dominates until meeting an equal and opposing force. Let us try to follow the path of this evolution showing that the road to hell is always paved with good intentions.

The Neoliberalism: Origins

The foundations of neoliberalism were laid in the thirties by the philosopher Alexander Rüstow differing somewhat from classical liberalism and oriented more towards social and controlled market economies. In 1947, Friedrich von Hayek, returning from the Walter Lippman Colloquium, founded the “Mont Pelerin Society” to re-propose this thought. It is important to position the thought of Hayek within the socio-cultural context he grew up in and where it was formed. He was a humanities expert and philosopher, a student of Ludwig von Mises and had experienced the Austrian post-war thought of human behaviour that Freud developed. His vision of society and economics was liberal but under a principle of moral rules in the same way as Adam Smith and David Hume, whose ideas were often instrumentally mystified. The libertarian impetus was the response to the totalitarianism that had strangled and suffocated societal life. Indeed, the real purpose of European intellectuals differed greatly from the strong defence of the “laissez-faire” economic liberalism that Keynes criticized with words that seemed prophetic. The cultural line was aimed at reconsidering the liberal thought in a broader but moral perspective in line with the European cultural tradition that clearly differed from the exasperated perspective of the American culture that was too technical and little inclined towards an integral vision of man. The difference between the two cultural models is the fact that European thought had not broken with the past and its creativity therefore had ancient roots. European thought generated the idea of the freedom of man through his own effort but discovered that the

***Corresponding author:** Pezzani F, Department of Policy Analysis and Public Management, Bocconi University, Milan, Italy; Tel: +39 02 5836 3434; E-mail: fabrizio.pezzani@unibocconi.it

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technical-rational thought alone is not a guarantee of real success. Hayek would later be deeply critical of an economic approach as an exact science and his speech on the occasion of the Nobel Prize was emblematic in denouncing that a purely quantitative approach to economics as a moral science and de-humanising it would be a source of serious damage. However, the American school became dominant and its thought carried to extremes created the disaster of an anarchist neoliberalism that led to self-interest as the supreme judge of the actions of individuals with the dramatic results that we witness today. When a thought and cultural model causes serious damage to man’s destiny it becomes a source of heavy responsibility for failing to pay attention to the proclaimed rights of man. If man is driven by economics and finance, he becomes a means, an object, and in this cultural model his bitter destiny technically implies “negative externalities” or “collateral damage” in the language of war. Universal human rights become mere declarations of intent and the “autonomy which is the foundation of the dignity of human nature and of every rational nature” [1] is negated. Autonomy, often recalled rhetorically, becomes a fig leaf and the means to affirm a higher interest that “reinforces the suspicion that the program of human rights consists in its imperialist misuse” [2].

The validity of the acclaimed neoliberal thought is today under review of history decreeing its failure precisely with those measurable means that the same thought elevated to incontrovertible criteria and truth [3,4]. The failure of such thinking is in the logic that presides over the destiny of all science, namely, the relationship between assumptions taken as fundamental to the development of thought and the subsequent results that can either validate the assumptions and the scientific path becomes virtuous, or invalidate them with asymmetric results to expectations and the thought is declared failed [5-9]. This is the exact case of the failure of neoliberal thought and the damage it caused by elevating finance in the supreme decision order overturning the principles of equality, freedom and solidarity, which are universal human rights. The only way out of this situation is to redefine the assumptions to avoid once again facing chaos. Let us try to reconstruct the path of this thought and the underlying assumptions [10-15].

Scientific method is common to all sciences but also draws on the diversity of the object of each science. In terms of the object of enquiry, which in positive sciences and social sciences consider different aspects, the following scheme can be proposed [16-22]:

- Social sciences (such as economics) examine the relationship between man and man (or groups of men or societies) intertwined in relationships with things other than man, resulting from the life of man in human society; the relationships with production and consumption of goods based on the values and priorities attributed them.
- The other sciences (the positive sciences, physics, chemistry and so forth) examine the relationship between one thing and another (or groups of things) including man only in the aspects of the subject.
- From this point of view, the social sciences have the following characteristics of overall and primary importance:
- The constraints imposed on the study by the influence of the human will and the unconscious; subjectivism with all its forms of unpredictability.
- The continuous change in the type of relationships between men also in the short and long term, the variability of interests and mechanistically unpredictable destinies.

- The automatic inapplicability of the mindset of those studying the exact sciences that have their own intrinsic rationality; an object always falls regardless of who drops it or from where.
- The spiritual and transcendental dimension that characterizes the life of man and his tension in the search for a metaphysical dimension.
- Consequently, the choice of assumptions in the study of economic phenomena is fundamental to their validation.

Certain general assumptions are protopostulated before starting on the research path and examining these is essential. The line to follow is to reduce to a minimum those that are not very general [23-30].

The declination of the assumptions is critical to understanding the “dehumanization” of economic sciences whose DNA is rooted in the tree of exact sciences giving rise to a genetically modified science. The technical rational thought has deep roots in history and can be first ascribed to the field of speculation with Kant paving the way for German idealism and the historical materialism of Marx [31]. The affirmation of the rational model and the principle of only measurable truth helped separate man from his spirituality and turned the positive and instrumental sciences into purposeful and moral sciences. The ground had been prepared for the quantitative approach to economics. Precisely in the years when Hayek founded the “Mont Pelerin Society”, Samuelson (Nobel Prize in 1970) applied the principles of thermodynamic equilibrium to economics deriving from the studies of the mathematician and physicist Willard Gibbs and paving the way for economics in which man’s emotionality was removed from the study as a non-influential issue [32-40]. However, Samuelson had previously taken a deeply critical position in relation to the rational approach to markets, growing inequality and the need for the State to reassume the role of rebalancing inequality. The Chicago school with Milton Friedman and other economists such as Coase and then Leontief took finance beyond the real economy and cloaked it as incontrovertible truth despite the evidence of the facts and the obvious errors made by a monetary policy that was self-referentially proposed in other countries, such as Chile under Pinochet, where it was entirely unsuitable both socially and culturally [41-46].

- “The times they are changin’ “the roots of the liberalism failure and the “Colombo’s egg”.

Financial equilibrium depends on economic equilibrium and not vice versa. Money has no value in itself but should represent a real asset that guarantees its value. As soon as this link ceased to exist, the value of the dollar-currency was no longer objective as conceived at Bretton Woods - 35 dollars per ounce of gold. The United States under pressure from internal and external problems found itself without gold and an untold and unrestrained monetary supply with a risk of its devaluation and collapse. For this reason, in 1971 Nixon unilaterally declared the discontinuation of the convertibility of the dollar into gold, switching abruptly from a fixed exchange rate system to a floating exchange rate system and thereby throwing the world into chaos. The invention of the petrodollar was functional to creating demand for dollars printed in excess and without limit, but would condemn us to a surge of inflation and the unprecedented explosion of public debt. This decision opened the world of geopolitics to a new kind of war made with finance [47]. US Secretary of the Treasury John Connally openly stated, “The dollar is our currency but your problem”. Here in Italy, we experienced a surge in inflation that brought us to our knees, totally unprepared for the financial attack of our first ally. The US hegemonic culture formed and was consolidated, turning their democracy into a narrow oligarchy

increasingly detached from the reality of a world that is today radically changing the balance of power. The following graphs show the end of the real economy, American public debt growth and the inflationary spiral that swelled our debt (Figures 1 and 2).

The transition from gold to the dollar exchange standard led us from a flexible to a floating exchange rate system at the mercy of a growing monetary and then financial mass with new electronic payment methods that slowly suffocated the real economy. Subsequently, financial cycles lengthened and became increasingly deeper, as this graphs show (Figure 3).

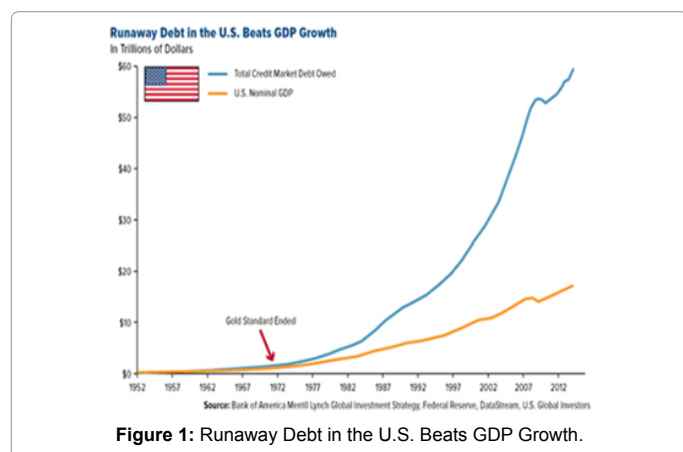


Figure 1: Runaway Debt in the U.S. Beats GDP Growth.

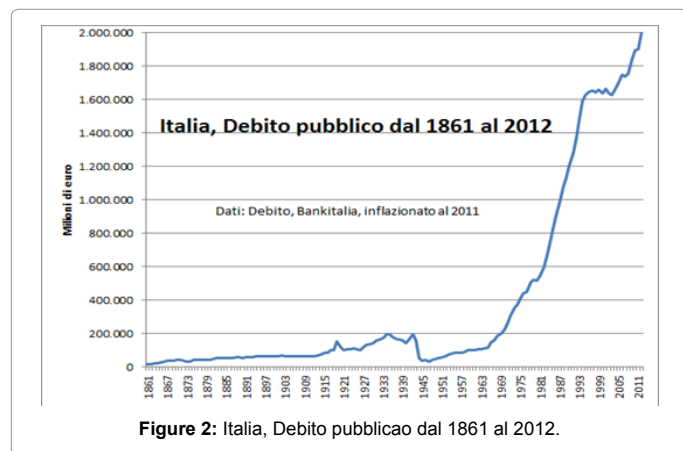


Figure 2: Italia, Debito pubblico dal 1861 al 2012.

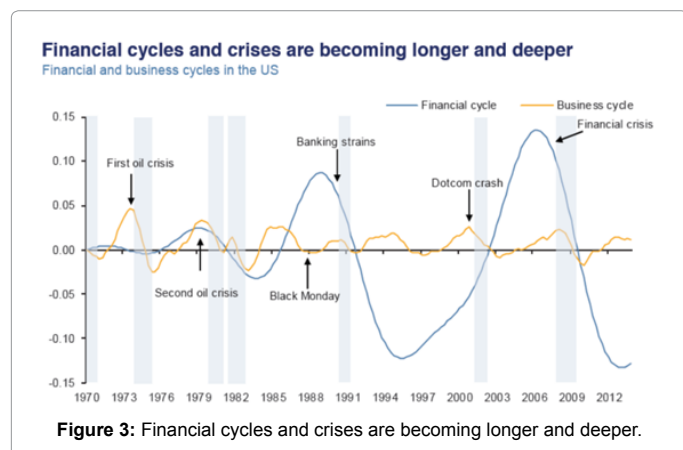


Figure 3: Financial cycles and crises are becoming longer and deeper.

Indeed, all the curves that in the post-war period indicated social and economic improvements, in exactly the same period in which we were plunged into infinite money (1970-75), the curves inverted and everything worsened, including US share capital and global inequality; history turned the page (Figures 4 and 5).

In the absence of real constraints, money assumed an infinite dimension and finance espoused this infinity, which is exactly and logically the opposite of a finite reality. Science allegedly affirmed that infinity, which in itself does not have a unit of measure, can be used to measure the real world that is instead finite and measurable. Aristotle's principle of non-contradiction states "A" cannot simultaneously occupy the position of "not-A" but is invalidated by contradicting the principles of logic and manipulating the facts. This ushered the era of infinite money with a dominant role based neither on scientific grounds nor on simple logic. The material finite became prey and hostage of the immaterial infinite and everything turned into a play of light and shadow as in the Chinese theatre where something is seen and constantly eludes [48].

When the printable volume of money became unlimited and uncontrollable, monetarism acquired an unnatural role because it raised infinite money above the finite, illogically determining its value and detached from reality. The trends of the financial prices of real assets were determined and influenced by endless speculation with exchanges that never closed, generating infinite financial volumes that nobody controlled [49,50].

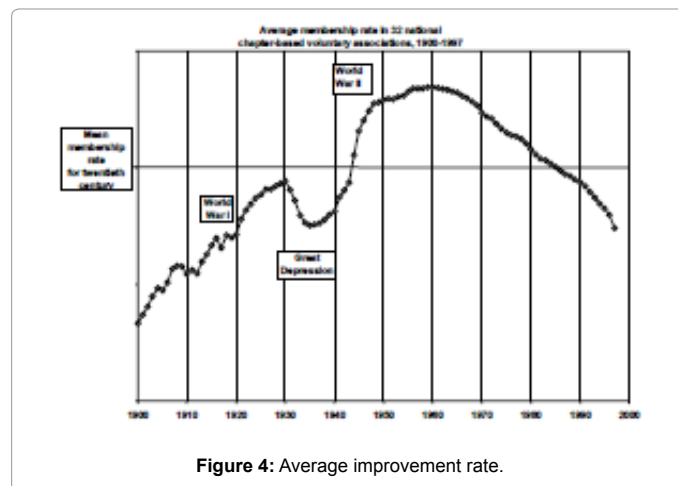


Figure 4: Average improvement rate.

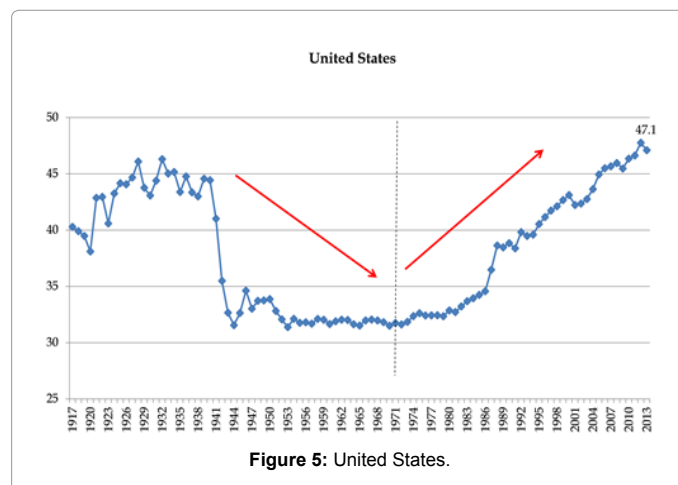


Figure 5: United States.

The Real Consequences

Essentially, the assumptions of neoliberalism as a panacea for all social ends and therefore functional to definitively affirming universal human rights can be summarized as follows [51]:

- Economics assumed as a moral science becomes the end to be pursued to improve society, the more the economy improves and grows the more society improves. Whereas before the ends of economics were external and society was better and more just, this way the end of economics is internal and becomes an end in itself.
- The separation of economics from society and man enables studying it with the mindset of those studying the exact sciences independent of the emotional state of man. The fundamental difference with the positive sciences is ignored in which the subject performing the enquiry does not influence the intrinsic rationality of the object of study, while in economics the subjectivity of man is not independent but conditions his choices.
- Economic growth pursued with an unregulated liberalism that feeds human greed and the end of maximizing personal achievement leads to normalizing illegal behaviours, living to earn and not earning to live, and life itself becomes a commodity; social pathologies eventually explode.
- If personal enrichment without limits becomes an end to be achieved as soon as possible, finance becomes the most appropriate means to achieve this. Finance must become an incontrovertible truth to enable admitting - as a founding assumption - that markets are rational and never misallocate wealth (Lucas, Nobel Prize in 1995); the Academy began to build toxic relationships with politics and finance.
- Finance was detached from the real economy with an independent life, the Nobel Prize awarded to Merton and Scholes for derivatives in 1997 and Greenspan's deregulation in 1999 flooded the world with liquidity. The dogma of "creating shareholder value" was to be pursued as a means to achieving the end as quickly as possible and healthy companies were stripped of flesh as fatted calves, delocalization was pursued regardless of the social effects and to nurture "emotional" but not rational expectations of increasing shareholder value, which does not necessarily imply greater real value for the company.
- The crisis that exploded in 2008 had begun much earlier, but the cultural model did not substantially change and the exit strategy of the US was to increase the drug addict's fixes.
- These self-referential assumptions have resulted in the following:
- Unprecedented increases in inequality, poverty, moral degradation, unemployment and other serious social pathologies. It is not true that the more the economy improves the more society improves, indeed, the facts and history prove the exact opposite. The underlying assumption is disproved.
- The cultural model definitively affirmed with finance became a war of all against all, and a society with perennial social conflicts that always seem about to explode. Self-interest prevailed at the expense of the common good and solidarity was only a façade.

Delocalization pursued to increase value separated capital from labour to the detriment of the latter that became hostage. The society of equality and freedom topples and the subsequent assumption of the affirmation of universal human rights is disproved.

- The model became self-referential and dominant, dictating the rules that were automatically applied, freedom thus evoked was stifled and the truth was systematically misrepresented by the media. A virtual and supranational hegemon senate formed that had no democratic legitimacy (legal or participatory) and its ends are internal.
- Finance affirmed throughout and broke away from the real economy that no longer enabled understanding the difference of the value in use and that of exchange, the prices of real goods were influenced by the expectations of future prices of an endless number of gamblers and macroeconomic data constantly changed. The markets were not rational, but data values such as the spread, rating, GDP and so forth acted as the instruments of an undefined supranational government while macroeconomic data based on infinite gambles became unpredictable and continuously changed as proof of the "irrationality" of markets. To understand their evolution, as in a casino where the roulette is rigged, one must look at the interests of the croupier since he controls the game and not the apparent and existent rationality of markets. The most evident data of finance as a type of locust are the speculations on agricultural commodities based on derivatives - commodities futures - that have underlying price agreements speculating on misery and hunger; democracy subjected to the rules of "seigniorage finance". Markets were not rational and the last hypothesis is disproved. The economy from solid became liquid and its medium time horizon became short or very short term, but more often was simply looted. Delocalized manufacturing created employment instability and influenced the growth of GDP because money alone does not generate money.

Conclusions

In the end, the results of the model are entirely asymmetric to the underlying assumptions, in which case the experiment is considered to have failed in the positive sciences and even more so in the social sciences where human rights are suffocated. Society is always the bedrock of economics and this is demonstrated once again in the facts: the countries that have climbed on the finance model - the US and the UK - are facing historically unprecedented social imbalances with levels of inequality and poverty of third world countries. In the UK, 1/3 of the population is below the poverty line as are 46% of New Yorkers even though many work 40 hours or more per week. The income of the richest 1% in the US accounts for 40% of total revenue; in the UK the assets of the five richest families are equal to those of 20% of the country's poorest. The figures are dramatic; the list goes on and unfortunately seems endless. The way forward to try to achieve balance is linked to "disarming" finance, limiting all the aforementioned perilous operations - derivatives, OTCs, futures on commodity prices, constraining the ratio of capital raised and gambling. The result we are facing seems to be a nemesis of the sense of omnipotence that always leads man to challenging social equilibria, this is the old hubris that Icarus and Prometheus lost, and before them in Genesis, Adam and Eve. Knowledge of the tree of good and evil brought man to the uncertainty of choices and exposed him to temptation and thus the moral "I" is always in the balance.

We can no longer think about the means when the ends are wrong. Economics, if taken as a moral value, has betrayed its original role as a mechanism to respond to human needs but has become an end in itself and an instrument of cultural domination that has led society to face the dilemma of its becoming. The idea of justice represented by a society of equals has been overridden by a society of un equals and the time has come to think of our time and redesign it, this is the real and absolute challenge we face.

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