

# The History of Neoliberalism: From Birth to Glory\*

*Gábor Pellényi*

*Daniel Stedman Jones:*

*Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal Politics*

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Many people blame the 2008 financial crisis on neoliberal economic policy and the over-reliance on self-regulation of the markets. Although at first, in a Keynesian vein, major demand boosting measures were introduced in reaction to the crisis, after the 2009 recession passed, the old reflexes returned. A couple of years later, economic policy discourse was once again dominated by calls for cutting budget deficits and for supply-side reforms strengthening market mechanisms. Apparently, the neoliberal approach has survived the crisis.

But who are the neoliberals and how have they become so dominant in economic policy? The book by Daniel Stedman Jones answers these questions. It is the extended version of the author's PhD thesis, which he wrote for the doctoral programme in political science at the University of Pennsylvania. It is based on extensive library research. The author has also conducted more than 20 interviews with key figures from the history of neoliberalism. Personal recollections and letters make the otherwise detailed and thorough analysis an exciting read. For example, it is revealed that Friedrich von Hayek, one of the "founding fathers" of neoliberalism became close friends with his main debating partner, Keynes, and for a while Hayek was Keynes' lodger.

The book highlights the origins of neoliberalism and the circumstances that surrounded its development. Neoliberalism originates from the period between the two World Wars. Some of its roots go back to Europe: its theoretical foundations were laid mostly by Austrian social scientists (Hayek, Karl Popper and Ludwig von Mises). In the United States, the University of Chicago became the centre of neoliberalism and Milton Friedman its leading figure.

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*Gábor Pellényi is head of department at the Magyar Nemzeti Bank. E-mail: [pellenyi@mnbb.hu](mailto:pellenyi@mnbb.hu).*

Neoliberals believed they were reinterpreting classical liberalism. The “neo” prefix was meant to suggest that they did not wish to return to the *laissez faire* economic thinking. They accepted the involvement of the state in the modern economy. They, however, wanted to impose strict limits and rules on the state, so that it did not threaten the freedom of the individual and the functioning of the markets. The emphasis on individual freedom was a reaction to the rise of totalitarian systems between the two World Wars, which were denying it.

In the Anglo-Saxon world, neoliberal concepts were primarily embraced by conservative parties. In the 1980s, the Republican Ronald Reagan and the Tory Margaret Thatcher were the two most prominent politicians espousing neoliberal ideologies.

Was the emergence of neoliberal economic policy and the conservative parties representing it a historical necessity? Or was neoliberalism a tool for the international expansion of American power, as some critics argue? As the book demonstrates, reality is not so clear-cut.

First, some elements of neoliberal economic policy (e.g. flexible exchange rate regime, anti-inflationary monetary policy) had already been applied by left-wing governments in the 1970s. For instance, in the United States, the Democratic President Carter appointed Paul Volcker chairman of the Federal Reserve. The deregulation of many industries, for example transportation, aviation and the financial system started under Carter’s presidency and a Democratic-led legislature (even beer-making was liberalised, which contributed to the subsequent boom in craft breweries). This shows that some elements of neoliberal economic policy enjoyed cross-party support.

In addition, chance played a role in the success of neoliberalism. The re-election of President Carter was hampered by the Iran hostage crisis, while Margaret Thatcher was able to secure a second term due in large part to the Falklands War.

Furthermore, neoliberalism is not an American, but rather a transatlantic phenomenon. Its roots go back to Europe, and in addition to the United States, the United Kingdom has also played a decisive role in spreading neoliberal ideas and helping them to achieve their full potential. Furthermore, due to ordoliberal traditions, German economic thinking, and thus the economic thinking in the institutions of the European Union, were imbued with neoliberal ideas.

However, neoliberalism has not, by any means, spread by chance. Both Hayek and Friedman consciously strove to popularise neoliberal ideas. Their primary goal was to persuade the opinion-forming elite (e.g. journalists, scientists, corporate managers) of their views.

But they had a hard time selling their idea. Neoliberals were initially considered eccentric, since they promoted economic policy messages completely different from the contemporary consensus. But their perseverance bore fruit in the 1970s. When the economic model of the previous two decades ran out of steam, neoliberal think tanks were ready to offer working recipes against stagflation to decision-makers. This time, since earlier economic policy measures were ineffectual, they were heard.

The book depicts the history of neoliberalism in a detailed and nuanced way. Yet, in some places it is clear where the PhD thesis ends and the chapters added later start. The first parts are written in an academic style, the reasoning is always sound, and the argumentation is balanced. In some later chapters, however, arguments are weaker and subjective assessments are more frequent.

One important lesson from the book is that an idea does not spread by mere chance, but through conscious mental work. For decades, neoliberals seemed marginal actors, but they were well-prepared for the crises in the 1970s. In contrast, critics of neoliberalism were caught off-guard by the 2008-2009 global crisis. Stedman Jones laments that there is no well-founded (left-wing) alternative enjoying widespread support that would supersede neoliberalism. In fact, in the United States, there is a bigger threat from the other side of the political spectrum: the Republican Tea Party movement takes neoliberal thoughts to the extreme, and founds its reasoning on ideological conviction instead of rational arguments.

Therefore, neoliberalism may play a major role in economic and political discourse for quite some time. And accordingly, the book will remain timely reading for those participating in these debates.